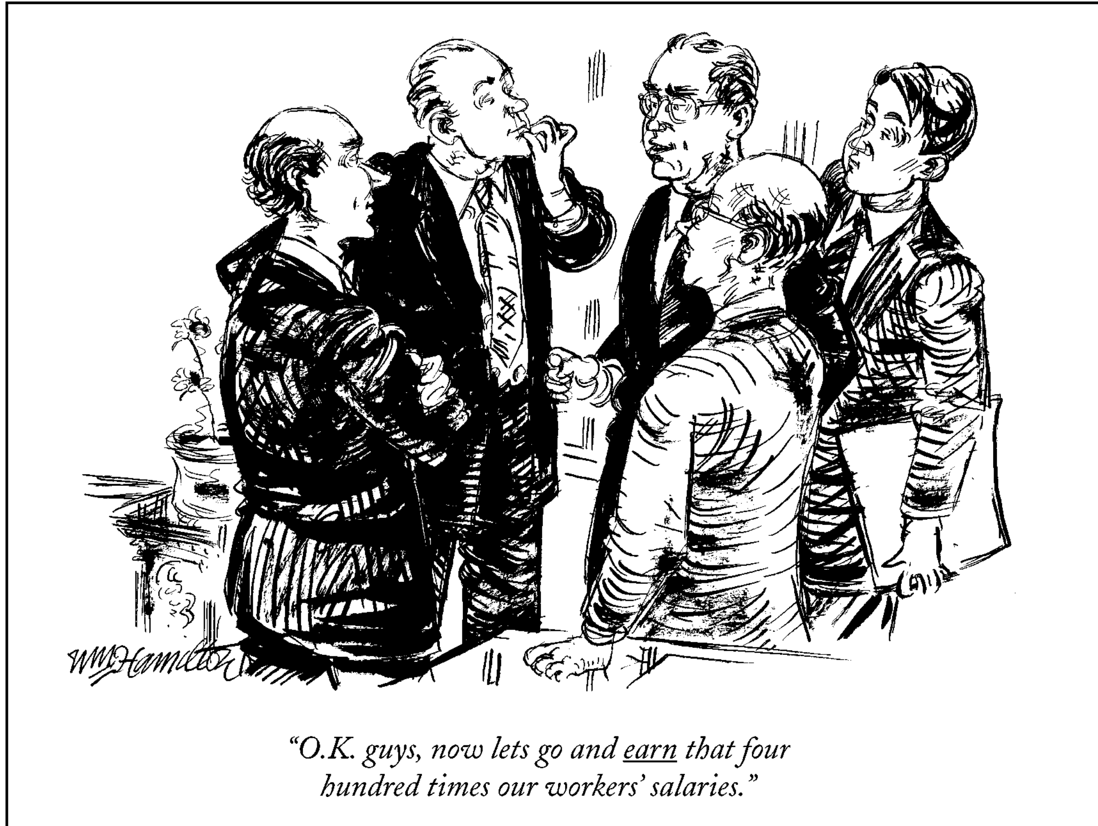
Executive Excess 2000

Seventh Annual CEO Compensation Survey



"O.K. guys, now lets go and earn that four hundred times our workers' salaries."

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Sarah Anderson and John Cavanagh of the Institute for Policy Studies

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Key Findings

1. A Decade of Executive Excess

- Executive pay jumped 535% in the 1990s (before adjusting for inflation), far outstripping growth in the stock market (the S&P 500 rose 297%). The explosion in CEO pay dwarfed the 32% growth in worker pay, which barely outpaced inflation, at 27.5%.
- CEO pay now stands at 475 times the pay of the average worker, according to *Business Week's* annual survey of American corporations.
- If the average annual pay for production workers had grown at the same rate during this economic boom period as it has for CEOs, their 1999 annual earnings would have been $114,035 instead of $23,753.
- If the minimum wage, which stood at $3.80 an hour in 1990, had grown at the same rate as CEO pay over the decade, it would now be $24.13 an hour, rather than the current $5.15 an hour.

2. E-Pay Explosion

- The CEOs of 50 top Internet companies surveyed by *Fortune* magazine held on average $234.9 million in unrealized options at the end of their fiscal years, compared to $32.5 million for 355 CEOs representing a cross-section of leading U.S. firms. The total combined value of the *Fortune* e-50s' unrealized options was $11.7 billion — about five times the net worth of the bottom one-third of U.S. households. Sixty-four nations have Gross Domestic Products that are less than $11.7 billion.
- Although *Fortune* e-50 CEOs tend to earn more than their counterparts at other leading firms, they fall far short in terms of company revenues and job creation. Only 30% of the *Fortune* e-50 firms made the *Fortune* 500 list of top revenue-earners. Some 44% have fewer than 1,000 employees, compared with only 1.6% of *Fortune* 500 firms.

3. Public / Private Sector Divide

- Since 1960, the ratio between average CEOs' pay and the U.S. President's pay has jumped from 2:1 to 62:1.
- The increasing gap in pay for top-level public and private sector executives is likely to create a government brain drain that could have a negative effect on public services. This is of particular concern because 65% of the government's Senior Executive Service will be eligible for retirement by 2004.
- The public/private sector pay gap enhances the incentive for government officials to pursue corporate jobs in which they are rewarded for utilizing their public sector experience in ethically questionable ways. Last year, former Treasury Secretary Robert Rubin earned more than $20 million from Citigroup, a company that owes its existence to legislation that Rubin helped push through Congress.

4. Closing the Gap

- The trends of the last decade are not irreversible. Numerous institutions and grassroots organizations are working to challenge the growing divide.

1. Introduction

This year's report once again confirms the predictable — that inequality between executive and worker pay continued to grow in 1999.

For seven years, researchers at the Institute for Policy Studies and United for a Fair Economy have examined the ever-increasing gap between pay levels for corporate Chief Executive Officers (CEOs) and workers. The purpose of our annual studies has been to raise awareness of the trend towards rising inequality that we believe is inconsistent with a healthy democracy and basic principles of economic fairness.

Over the years, as CEO pay packages in the tens if not hundreds of millions of dollars have become increasingly routine, the shock value has begun to ebb. Unfortunately, this year's report once again confirms the predictable — that inequality between executive and worker pay continued to grow in 1999. However, even the most jaded CEO pay watchers were amazed last year by the explosion of earnings among the new class of leaders in the Internet economy. Virtually overnight, a large number of these new corporate bosses saw their paper wealth explode — in some cases to over a billion dollars. Although some of these stock option treasure chests have declined in value because of a fickle stock market, the speed at which the Internet leaders have amassed such sums is clearly the story of the year in CEO pay.

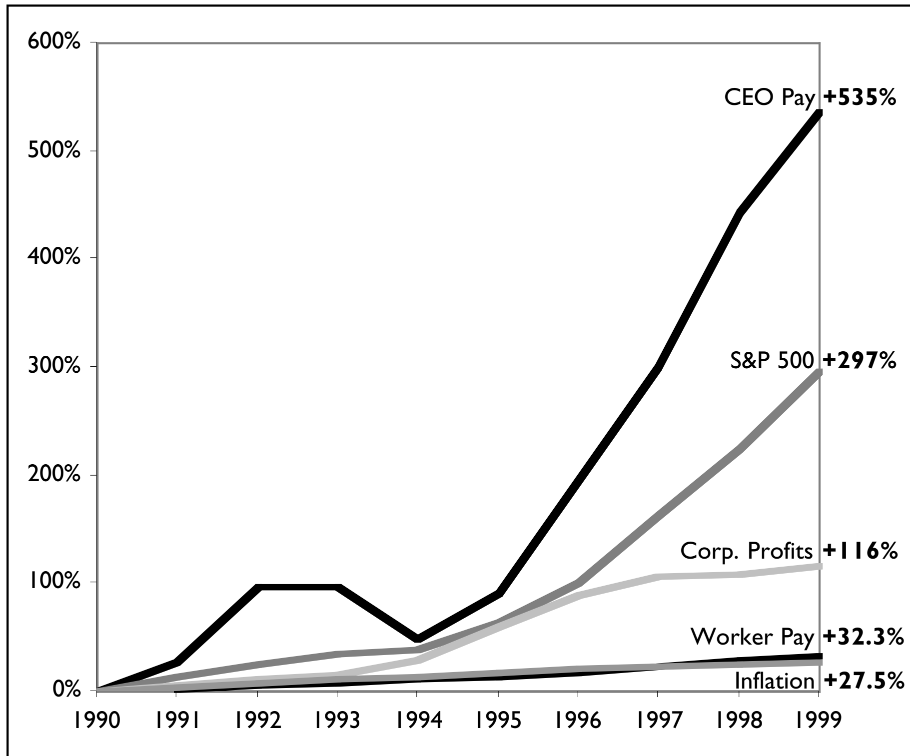
Following an update of the trends of the 1990s, this year's report focuses in on the Internet pay explosion and examines the arguments in support of unlimited pay for leaders in this rapidly developing sector. The report then analyzes how exorbitant pay in the private sector affects the public sector, particularly as the government faces an impending employment crisis in the top ranks. We end with recommendations to close the wage gap.

2. A Decade of Excess

Between 1990 and 1999, total CEO compensation grew by 535%.

Although the 1980s are known as the "Decade of Greed," the 1990s may be more deserving of the title. Compared to top executives, average workers have enjoyed only a small share of America's expanding economic pie. Between 1990 and 1999, total CEO compensation grew by 535%, not adjusting for inflation. This far outstripped growth in the stock market (the S&P 500 rose 297%) and in corporate profits (which rose 116%). Meanwhile, production worker pay lagged far behind, rising only 32.3% (from $345.35 a week in 1990 to $456.78 a week in 1999). This boost in worker pay only barely outpaced inflation, as the Consumer Price Index grew 27.5% over the decade. If the average annual pay for production workers had grown at the same rate during this economic boom period as it has for CEOs, their 1999 annual earnings would have been $114,035 instead of $23,753.

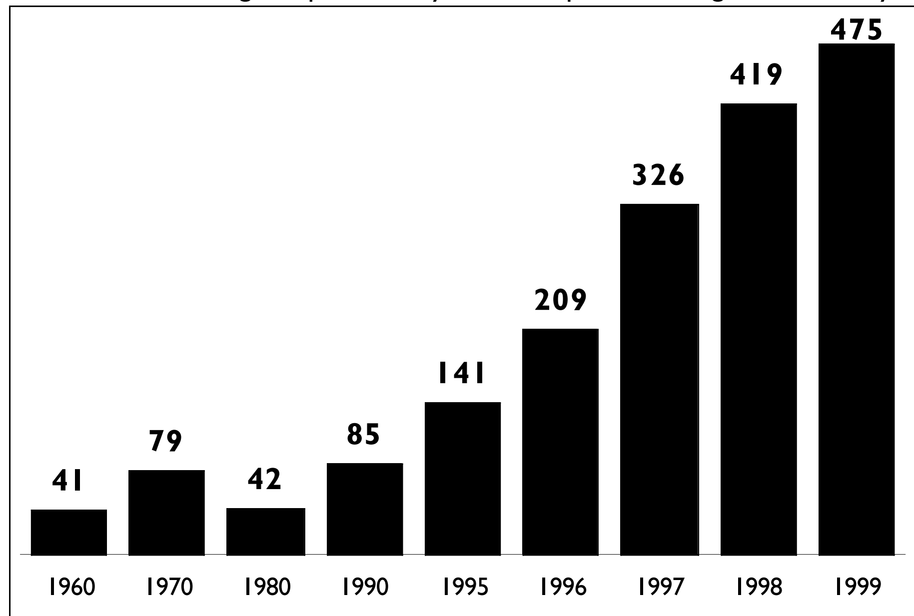
Chart 1 • The 1990s: CEO Pay, Profits, Stocks Leave Workers Far Behind



Sources: CEO Pay: Business Week annual executive pay surveys. **S&P 500 Index:** Standard and Poors Corporation, cited in 2000 Economic Report of the President, **Corporate Profits:** Bureau of Economic Analysis, National Income and Disposition of Personal Income Data. **Average Worker Pay:** Bureau of Labor Statistics, "Average Weekly Earnings of Production Workers, Total Private Sector." Series ID: EEU00500004. **Inflation:** Bureau of Labor Statistics, "Consumer Price Index, All Urban Consumers."

While CEOs have seen their pay packages zoom into the stratosphere, the typical American worker has seen no improvement in real wages in over a generation.

Chart 2 • The Wage Gap: CEO Pay as a Multiple of Average Worker Pay



Source: *Business Week* annual executive pay surveys.

One way to put the growth in CEO pay in perspective is to imagine what would have happened to paychecks at the bottom of the pay scale if they had risen at the same rate as CEO pay. If the minimum wage, which stood at $3.80 an hour in 1990, had grown at the same rate as CEO pay over the decade, it would now be $24.13 an hour, rather than the current $5.15 an hour.

The growing gap between CEOs and workers underscores the legacy of wage stagnation since the 1970s. Even with increases in the median hourly wage since 1996, it was still lower in 1999 ($11.88) than it was in 1973 ($12.05), after adjusting for inflation. While CEOs have seen their pay packages zoom into the stratosphere, the typical American worker has seen no improvement in real wages in over a generation.

3. E-Pay Explosion

Our review of pay at the Fortune e-50 firms confirms the popular image of these new corporate leaders as amassers of extreme wealth — at least on paper.

In an era when the general public has become accustomed to sky-high executive compensation, the emergence of the overnight mega-millionaires in the Internet industry is a shock—even for their fellow CEOs. In the past, top executives have tended to present a united front in supporting limitless pay, but the virtually instant riches of the Internet executives appears to have created a rift. More than 70% of senior executives surveyed by *Business Week* felt that dot-com CEOs are unfairly rewarded.

To get a more detailed picture of the e-pay landscape, we analyzed the compensation of CEOs at companies included in *Fortune's* e-50 list of 50 companies that the magazine's experts consider current or potential major players in the Internet Economy.[1] The list covers the spectrum of Internet commerce — software, hardware, communications, and services. It also includes a few older firms, such as IBM and AT&T, that are reinventing themselves to provide Internet-related products and services, but more than half were created after 1991 and 18 are less than five years old. (All *Fortune* e-50 firms have been public for at least six months and have a market cap that exceeds $100 million.)

Internet CEOs hold Paper Fortunes Worth Seven Times Other Leading CEOs

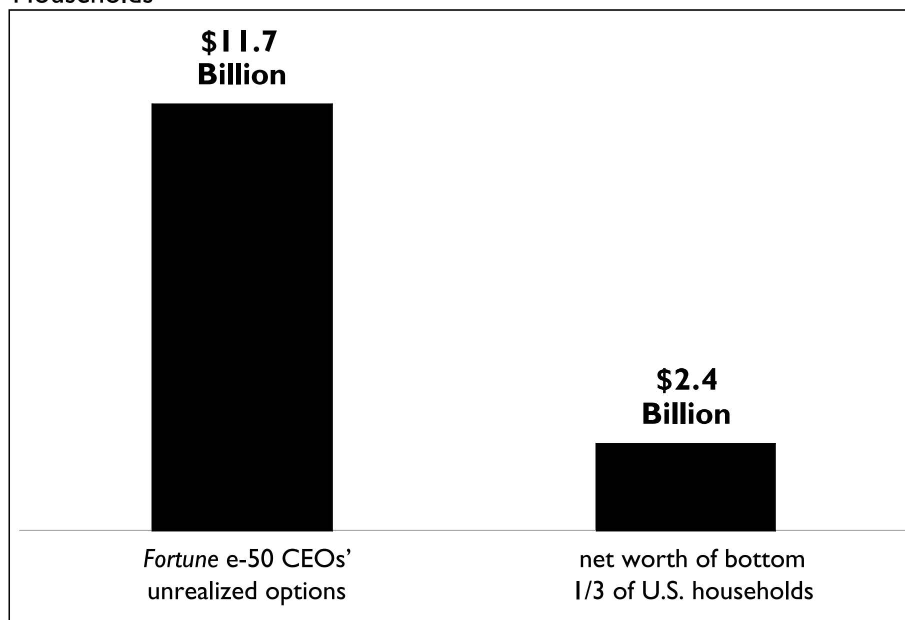
Our review of pay at the *Fortune* e-50 firms confirms the popular image of these new corporate leaders as amassers of extreme wealth — at least on paper. *Fortune* E-50 CEOs held options worth $234.9 million on average at the end of their companies' fiscal year (see Appendix A). This is more than seven times the average of $32.4 million held by 355 CEOs of major firms surveyed for the *Wall Street Journal* by William M. Mercer.

Internet CEOs versus Bottom One-Third of Households

The sum of the *Fortune* e-50 CEOs' unrealized options comes to a staggering $11.7 billion. Put in perspective, that's about five times as much as the 1998 net worth of the 33.4 million U.S. families (one-third of all households) that earn less than $25,000 per year.[2] Sixty-four nations have Gross Domestic Products that are less than $11.7 billion.[3]

In terms of total compensation actually received in 1999, the Fortune e-50 set came out ahead of the general pool of top CEOs.

Chart 3 • *Fortune* e-50 Options vs. Net Worth of Bottom 1/3 of U.S. Households



Source: *Fortune* e-50 list, www.fortune.com, for the second quarter of 2000. Bottom one-third of U.S. households' net worth alculated by the authors from U.S. Bureau of the Census, "Money Income in the United States," table 2, p. 5, September 1999 and Federal Reserve Board, "1998 Survey of Consumer Finances."

Real Compensation

In terms of total compensation actually received in 1999, the *Fortune* e-50 set also came out ahead of the general pool of top CEOs. Salary, bonus and value of exercised options came to $15.9 million on average for the *Fortune* e-50, compared to $12.4 million for the 362 CEOs surveyed in the annual *Business Week* survey of leading firms. The *Fortune* e-50 figure was boosted by a handful of eye-popping options gains by Steve Case at America Online ($115.5 million), David Pottruck at Charles Schwab ($118.9 million), Lou Gerstner at IBM ($92.9 million) and John T. Chambers at Cisco Systems ($120.7 million) (See Appendix A).

The *Fortune* e-50 leaders did slightly worse than average on the more stable salary and bonus components of pay, taking in $2.1 million on average, compared to $2.3 million for the *Business Week* pool (see Appendix A). And, indeed, it is true that the Internet executives face considerable unpredictability in their earnings, with so much of their compensation dependent on highly volatile share prices. Already, some have seen the value of their treasure chests diminish. Between the end of their fiscal years and July 31, 2000, the *Fortune* e-50 CEOs who held unrealized options saw the value of their stock decline by 20% on average. However, a recent study by the University of Texas Center for Research in Electric Commerce shows strong revenue growth among Internet firms, suggesting that they may regain favor among stock analysts. Even e-commerce companies, which have taken the hardest hit on Wall Street, had revenue growth of 72% in 1999.[4]

Are They Worth It?

The wealth explosion of Internet executives raises serious questions about equity and participation in the current period of economic prosperity. And yet with few exceptions, the mainstream business press and our national leaders have trumpeted the success of the Internet chiefs in amassing fortunes that outsize the GDPs of many countries. Defenders of these pay packages point to the quality of jobs created by Internet firms, as well as their contribution to the current relative economic boom in the United States. The following sections take a look at each of these arguments.

The number of workers employed directly by Internet firms remains minuscule relative to the total workforce and relative to the largest U.S. firms.

Job Creators

Much of the rosy press coverage of Internet companies focuses on the argument that they are creators of high-paying jobs. Indeed, there is a big wage gap between average U.S. workers and the information technology workers who are the backbone of the Internet industry (those engaged in the design, manufacture, operation, repair and maintenance of computer and telecommunications equipment and services). In 1997, these workers made $53,000 on average, compared to $30,000 for all workers.[5]

However, the number of workers employed directly by Internet firms remains minuscule relative to the total workforce and relative to the largest U.S. firms. Of the *Fortune* e-50 firms, 44% had 1,000 or fewer employees (see Appendix B). By contrast, only 1.6% of firms on the *Fortune* 500 list (ranked by revenues) have such a small payroll.

One reason the headcount at the Internet firms is so low is because this industry has been at the forefront in the trend towards “flexibilizing” their workforce through high numbers of contingent workers (anyone without a full-time, permanent position). Microsoft is perhaps the most extreme example. The software giant has employed as many as 6,000 “temporary” workers, a third of its total workforce. Of the temps, as many as a third are so-called “permatemps” – those who have worked for years doing work comparable to that of permanent employees but without access to company healthcare and pension or stock options.[6] Some of them are now suing the company to obtain benefits that full-time employees have. To protect itself from future lawsuits, Microsoft has begun hiring more full-time employees while also requiring that temps work no more than a year before making their temporary status less of a misnomer by taking a 100-day break from their jobs.

According to *Business Week*, the Internet industry’s heavy use of contingent workers has exacted the heaviest toll on less-skilled workers. While high-demand skilled workers may be able to negotiate a pay hike with every new contract, companies in the hi-tech Silicon Valley area have used this approach to hold wages down for others, resulting in a 10% drop in wages for lower-skilled workers during the past decade.[7]

America Online (AOL), the world’s No. 1 provider of online services, has gone even further to keep down labor costs. AOL has 12,100 employees on payroll,

While the Internet firms may boast about the generous pay for some of their employees, the explosive growth of the industry in pockets of the country has wreaked havoc on other community residents.

but an even larger number of unpaid volunteers. Some 14,000 people work to organize bulletin boards and chat rooms for AOL, earning nothing more than free Internet access. Although employment law experts claim that traditional "brick and mortar" firms that tried such a thing would probably face charges of violating the Fair Labor Standards Act, AOL and other dot-coms have so far argued that they deserve an exception. Although many volunteers obviously enjoy their work in the cutting-edge cyberspace world, a few of AOL's volunteers are pursuing a lawsuit demanding back wages. Paying the volunteers the minimum wage would cost $15 million to $150 million per year (depending on how many hours they put in) — a sum comparable to the $117 million paid to AOL CEO Steve Case in 1999.[8]

Of course, there are many in the Internet field who are highly satisfied with their jobs. The *Fortune* e-50 companies frequently boast of their generous stock options and training programs. In their proxy statements to investors, virtually all of the *Fortune* e-50 firms pointed out that their employees are not represented by any union and are not subject to collective bargaining agreements. Indeed, organizers with Washtech, an affiliate of the Communications Workers of America that is focusing on technology workers in the Puget Sound area of Washington state, admit that collective bargaining is not a realistic goal at the moment. Instead, Washtech is focusing on exposing abuses by temp employers and agencies and fighting for legislative action to improve regulation of the industry.

The Internet firms should be lauded for creating at least some jobs that are relatively high-quality in terms of pay and worker satisfaction. However, as the thrill of this rapidly evolving technology begins to dim, many more questions are likely to be raised about whether the creation of this handful of good jobs warrants pay packages for top executives of such vast proportions. Moreover, while the Internet firms may boast about the generous pay for some of their employees, the explosive growth of the industry in pockets of the country has wreaked havoc on other community residents.

Inequality

In Silicon Valley, the birthplace of the Internet era, high-tech entrepreneurs have driven up housing prices to astronomical levels. In the past three years, home prices have soared 65% — more than three times the national average. Only 29% of Silicon Valley families can afford the $421,000 median price of a home.[9]

In Northern Virginia, home to AOL and numerous other Internet firms, community residents left out of the boom are facing a severe housing crisis. Fairfax County's homeless population jumped 21% in the past two years, even though the unemployment rate dropped to 1.4%. Average apartments rent for nearly $850 per month and many landlords have stopped accepting federal housing vouchers. According to the county's Homeless Oversight Committee, two-thirds of homeless parents are employed full- or part-time.[10]

Likewise, in Seattle, headquarters of Microsoft and other hi-tech firms, many workers outside the Internet bubble complain that the New Economy has only made life more difficult. There, as in Silicon Valley and other cities, janitors who clean the offices of the hi-tech companies have protested the sharp rise in the cost of living while their wages have for the most part stagnated.

If these trends towards increased inequality continue, the public may raise more serious concerns about whether the Internet executives so glorified in most of the mainstream business press actually deserve their mammoth pay packages.

Engine of the New Economy?

New information technologies are clearly revolutionizing the way business is done in America. However, whether they are actually expanding our national economic pie is debatable.

New information technologies are clearly revolutionizing the way business is done in America. However, whether they are actually expanding our national economic pie is debatable. The Clinton Administration, which has avidly pursued the support of the newly wealthy "interpreneurs," has reported widely that by 2006, nearly half of American workers in the private sector will work for industries that produce information technology (IT) equipment or services or by industries that are heavy users of IT equipment or services.[11] On the other hand, some economists point out that e-commerce sales merely substitute for sales at traditional brick and mortar firms. According to Jupiter Communications, 94% of online spending represents purchases that otherwise would have been spent offline. And so far, the revenues of Internet firms remain relatively small. Only 30% of the *Fortune* e-50 firms made the cut for the *Fortune* 500 list of top revenue-earners. Only one purely Internet-focused company (AOL) made the list.

Another concern is the fact that e-commerce continues to enjoy an advantage over traditional retailers by eluding the imposition of sales taxes. E-commerce firms enjoy this loophole because of a Supreme Court ruling that businesses which do not have a physical presence in a state need not collect taxes. Forrester Research says that Internet sales cost state and local governments about $525 million in revenues in 1999 alone.[12] This loss places new pressures on governments to either reduce spending on programs or raise revenues through other sources, such as increased income taxes.

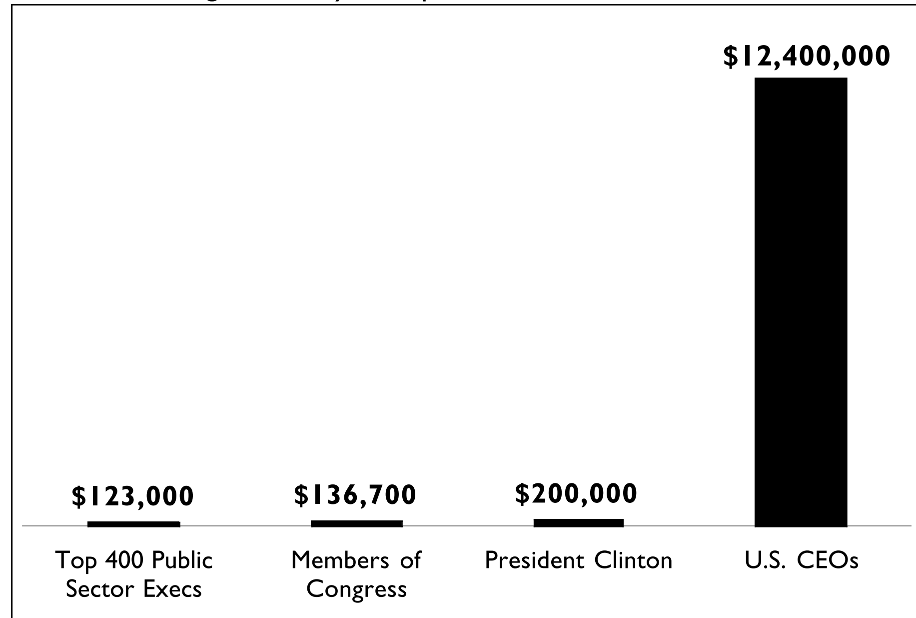
Over the past four decades, the gap between average CEO pay and the U.S. President's pay has jumped from 2:1 to 62:1.

4. Public / Private Sector Divide

The explosion of pay levels in the Internet industry has contributed to further expansion of the already enormous pay gap between private sector executives and the top echelons of government. Over the past four decades, the gap between average CEO pay and the U.S. President's pay has jumped from 2:1 to 62:1. A vital issue for a thriving democracy is how to continue to attract highly skilled people into government. Thus, even though there will always be individuals who see work in the public sector as a noble calling, the current extreme levels of disparity are creating big headaches for government recruiters.

In September 1999, Congress took one small step to respond to this concern by passing legislation to double the pay of the President, beginning in 2001. The President's pay level sets a ceiling on how much other civil servants are allowed to earn. However, even with the President's 100% raise, the goal of narrowing the chasm between pay for government and private sector executives remains a joke. President Clinton's successor will earn $400,000. According to *Business Week*, CEOs at large U.S. firms earned on average 31 times that sum ($12.4 million) in 1999. The chart below illustrates the gulf between compensation for CEOs versus pay for the President, members of Congress and top public-sector executives in 1999.

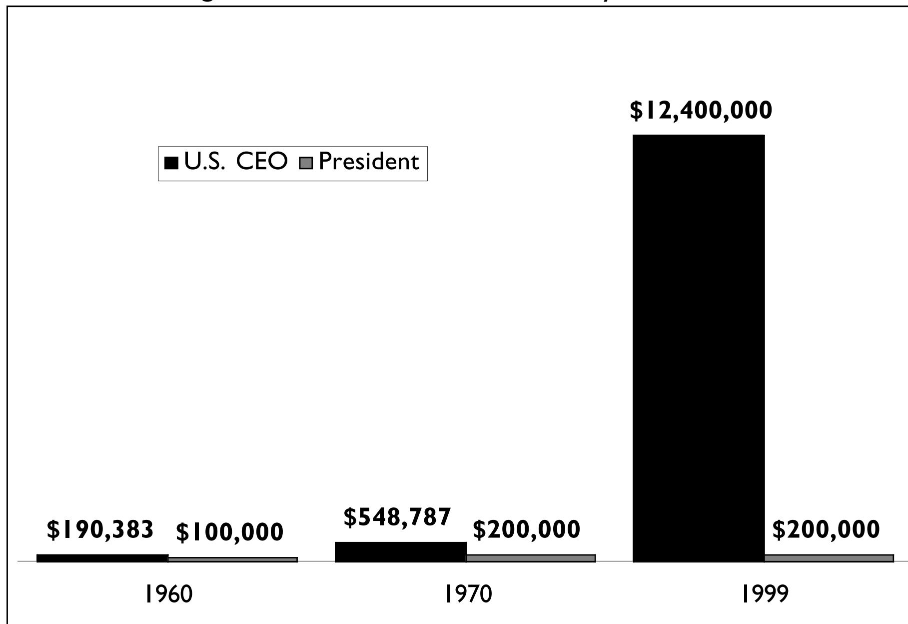
Chart 4 • Average 1999 Pay of Top Public-Sector Positions and U.S. CEOs



Source: Congressional Budget Office and *Business Week*, April 17, 2000.

The private-public pay gap has not always been this vast. In 1960, CEOs on average earned less than twice the President's salary ($190,383 vs. $100,000). By 1970, they made a bit less than three times as much ($548,787 vs. $200,000). The real split began when stock options began comprising a greater share of CEO compensation in the 1980s.

Chart 5 • Average CEO and U.S. President's Salary, 1960-99



Source: *Business Week*, April 26, 1993 and April 17, 2000, and *Houston Chronicle*, September 30, 1999.

The most obvious problem posed by the public-private sector pay gap is the challenge it creates for government recruiters.

Why is the Public vs. Private Sector Pay Gulf a Problem?

Recruitment

The most obvious problem posed by the public-private sector pay gap is the challenge it creates for government recruiters. Even among students at Harvard University's Kennedy School of Government, one-third say they plan on entering the private sector when they graduate next year.[13] So far, the problem of recruiting and maintaining public sector employees has been largely masked by government downsizing. The Clinton Administration has eliminated 300,000 civil service jobs, mostly through buyouts.[14] However, five years from now, about 30% of the government's 1.6 million full-time employees will be eligible to retire. An additional 20% could seek early retirement. While not all will leave at once, the federal government is almost assured of facing an employment crisis in coming years.

According to the Office of Personnel Management, the losses will be heaviest at the top. A whopping 65% of the Senior Executive Service (SES) will be eligible for retirement by 2004.[15] SES members include managers and supervisors at the top of the civil service who hold high-level positions in budgeting, science, engineering and program administration. Some lead major organizations that rival large corporations in terms of diverse operations, nationwide operations, and numbers of employees. On average, SES members earned $120,000 in salary in 1999.[16] Recruiters trying to fill these positions will be attempting to lure applicants away from private sector jobs that are likely to pay at least several times that amount, plus stock options. (Public sector workers obviously do not enjoy stock options and the Ethics Reform Act of 1989 restricts outside income and honoraria for top executives).

The biggest private sector draw these days for SEC leaders are Internet businesses.

The impending vacancies are not just the result of federal executives reaching retirement age. According to a recent survey by the Executive Service Association and the Office of Personnel Management, 28% of executives said they probably would look for another job outside the government during the next year. The top reason for leaving was the hope of finding a higher-paying job (53%).[17] A similar survey by Price Waterhouse of career executives showed that 83% had thought about leaving their jobs, with compensation concerns ranking No. 1 among reasons for their dissatisfaction.[18]

Of course there will continue to be dedicated public servants, but the extreme gap in public versus private sector pay is likely to contribute to a government brain drain, with significant implications for the quality of government services in the years to come.

SEC Exodus to the New Economy

At the Securities and Exchange Commission, high turnover at the top is nothing new. These leading securities regulators typically don't stay long before heading off towards higher pay in the corporations that they were previously regulating. In fact, current Chairman Arthur Levitt, now in his sixth year, ranks as the longest-serving SEC head ever.

Not surprisingly, the biggest private sector draw these days for SEC leaders are Internet businesses. According to a story on this trend by Bloomberg News, "With Internet shares skyrocketing to new heights each day, stock options may be a powerful incentive for those who have endured the austerity of government wages." Richard Breeden, the top U.S. securities regulator from 1989 to 1993, and at least five others who served as Commissioners on the SEC's five-member top board now serve as directors of Internet-based businesses.[19]

Former SEC Leaders Now Serving on the Boards of Internet Firms

	Internet Firm	**Position with SEC**
Richard Breeden	Espeed	Chairman (1989-93)
Edward Fleischman	Wit Capital	Commissioner (1986-92)
Carter Beese*	Aether Systems China.com Technologynet Internet Securities	Commissioner (1992-96)
Steven Wallman	VCampus	Commissioner (1994-97)
Charles Marinaccio	Ameritrade	Commissioner (1984-85)

*Also CEO of Folio, a private Internet financial services company.

Charles Marinaccio, an SEC Commissioner from 1984 to 1985, is now on the board of Ameritrade, the online brokerage well known for its television commercials featuring Stuart, the red-headed slacker. At the SEC, Marinaccio's job was to carry out the agency's mandate to ensure protections for investors. By contrast, Ameritrade has been criticized for doing just the opposite — increasing investor risk and taking advantage of stock market neophytes. In February 2000, the National Association of Securities Dealers ruled against Ameritrade in a highly publicized case involving an inexperienced investor who claimed he'd been lured into making unsuitable investments by information on the firm's web site. Ameritrade, with former SEC leader Marinaccio at the helm, argued that unlike traditional brokers that provide personalized advice, online services should not be held responsible for investors' decisions.

Exorbitant private sector compensation creates an incentive for public sector workers to use their experience in government to open new opportunities for future employment in the corporate world.

Marinaccio, like most directors with internet firms, is paid largely in stock options. The company reports that since becoming an Ameritrade board member in 1997, he has accumulated 48,000 options. (Since Ameritrade did not publish the exercise price of these options in their proxy statements, it is impossible to calculate their current value.)

The biggest compensation winner so far among the former SEC heads is Carter Beese, now a Director of Aether Systems, a maker of hand-held wireless microcomputers and provider of financial data aggregation services. Since the company was founded in 1996, Beese's 95,600 options have gained $15.5 million in value.

Edward Fleischman, now a director of online broker Wit Capital, has enjoyed options gains of $353,828, plus up to $20,000 per year for attending meetings. Steven Wallman is now on the board of VCampus, which provides online corporate training and educational software. His options have increased $69,271 in value since becoming a director in 1997. It's not difficult to understand why the SEC-to-Internet flight is so common. These former public servants have the chance to make more money by attending a few board meetings of these firms than they could regulating them.

Cashing in on Government Experience

In addition to the problems that exorbitant private sector compensation create in recruiting and keeping government employees, the extreme gap also creates an incentive for public sector workers to use their experience in government to open new opportunities for future employment in the corporate world. In some cases, this has led to serious ethical questions.

Former Secretary of the Treasury Robert Rubin

In October 1999, former Treasury Secretary Robert Rubin assumed the post of Chairman of the nation's largest financial services company, Citigroup. In his two months on the job that year, he received a compensation package of about $21.5 million ($2.1 million in salary and bonuses and about $19.5 million in options and restricted shares). The Treasury Department's web site

Citigroup would not exist without legislation that Treasury Secretary Rubin helped design and push through Congress while he was still on the public payroll.

lists "What is the Secretary's salary?" as the second-most frequently asked question. Answer: $99,500.

Citigroup would not exist without legislation that Rubin helped design and push through Congress while he was still on the public payroll. The Financial Services Modernization Act of 1999 tore down walls that had been erected during the Depression to separate banks, insurance companies and stock brokerages. Citicorp, a bank, and Travelers, an insurance company, obtained a two-year waiver under the previous law in order to launch their $37.4 billion merger. The new law made the deal legal and allowed the merged company to avoid being forced to spin off lucrative businesses.[20] Support from Rubin was considered crucial to bill's passage.

Former OSHA Head Dorothy Strunk

Dorothy Strunk served as Acting Director of the Occupational Health and Safety Administration during the Bush Administration, before moving on to work for United Parcel Service, the company that has been a top target of complaints to OSHA for violations of worker health and safety rules. Between 1972 and 1995, UPS was hit with 2,786 violations and $4.6 million in fines. According to the Teamsters Union, in 1992 company workers suffered 10,555 lifting and lowering injuries that required more than first aid.[21]

An optimist might assume that UPS hired Strunk with the idea that she might be able to apply her expertise in worker safety to lower their injury rates. To the contrary, Strunk's task was to draft legislation to revise OSHA standards to prevent the agency from imposing penalties for violations related to cumulative stress disorders caused by repetitive motion or lifting—the fastest growing occupational injury. OSHA had attempted in the past to slap UPS with $140,000 in fines for such ergonomic violations, only to back off after UPS contested the charges.

The legislation was sponsored by North Carolina Republican Cass Ballenger, but around Capitol Hill, it was known as "Dottie's Draft." Although efforts to push the bill through Congress have stalled, the legislation could be resurrected if the fall elections bring new leadership to the Congress or White House.

Other Cases

Examples of such ethically questionable behavior abound in other branches of government as well. For example, several experts on the banking industry have related that government bank regulators tend to last just long enough to acquire the expertise necessary to make a bundle in the private sector assisting banks in finding loopholes around regulations. Similar stories about former Internal Revenue Service investigators are also common. Unfortunately, this problem has not yet been well-documented.

5. Closing the Gap

Grassroots organizations are focusing on wage issues at the local level and on college campuses, while legislators at the federal level try to raise the minimum wage to keep pace with inflation. There are also specific steps that could be taken to rein in excessive CEO pay.

Since the early 1970s, laws and regulations protecting minimum wage standards have been weakened and the disparities between highest, average and lower paid workers have accelerated. Grassroots organizations are focusing on wage issues at the local level and on college campuses, while legislators at the federal level try to raise the minimum wage to keep pace with inflation. There are also specific steps that could be taken to rein in excessive CEO pay. This section examines some of these efforts and discusses ways to "up the ante" on the wage inequality debate.

Increasing State and Federal Minimum Wages

The minimum wage has historically played an important role in raising the earnings of low-wage workers (which also helps workers the next few rungs up the economic ladder). Unfortunately, the policy debate over the issue has focused almost exclusively on the risk of job loss, despite the fact that recent research demonstrates that such job loss effects are either nonexistent or negligible. Given these findings, too little attention has been paid to the question of who benefits from the increase in the minimum wage. Analysis done by organizations such as the Economic Policy Institute reveals that benefits of the minimum wage go almost exclusively to those who need it the most: full- and part-time adult workers in lower income families.[22]

The current minimum wage of $5.15 an hour —$10,712 a year —is not enough for a family with children to eke out a living. Raising the minimum wage is only a small step in closing the ever-growing gap. The minimum wage should be closer to a living wage that would lift a family of four over the poverty line. It should at least be raised to $8.10 an hour over the next two years and indexed annually to inflation so we don't need to wait for politicians to act in order to protect its buying power.[23]

Local Living Wage Campaigns

Across the country, coalitions have come together at state and municipal levels to advocate for living wage ordinances. In 1995, the city of Baltimore passed the first living wage ordinance. As of January 2000, in over 40 cities and counties, including San Antonio, Boston, Chicago and Milwaukee, coalitions of labor, religious and community activists have pushed successfully for the passage of living wage ordinances.[24]

There are currently over 60 active municipal living wage campaigns organizing to institute laws that will require companies doing business with these cities to pay a living wage, usually pegged to the amount that would lift a family of three or four above the region's poverty level. Most ordinances include vendors, private contractors and organizations receiving substantial public subsidies, including real estate developers who get housing development subsidies.

Living wage ordinances have not increased unemployment, nor placed undue burdens on small businesses.

These living wages range between $7.50 and $10.00 per hour, depending on the location. Unfortunately, these wages based on the federally-determined poverty line are usually not adequate. Estimates of the hourly wage necessary to lift families out of the need for food stamps, housing subsidies and other forms of assistance are closer to $11 to $13 per hour, while complete economic self-sufficiency would require even higher wages.[25] A "living wage" based on the poverty line might be better termed a *survival* wage. But, at times, local campaigns must make political calculations about what has the potential for passage without ignoring the inadequacy of even "living wages" as they are often defined.

Living wage proposals, as well as efforts to raise state and federal minimum wage levels, all encounter the same concerns: Will raising the minimum wage hurt low-wage workers by increasing unemployment? Will increased wages force small employers out of business? Robert Pollin and Stephanie Luce, in their book, *A Living Wage: Building a Fair Economy*, draw on both historical evidence and an analysis of several communities that have passed living wage ordinances to respond to these concerns.

Their verdict: living wage ordinances have not increased unemployment, nor placed undue burdens on small businesses. The positive effect of boosting the wages of a targeted number of low-wage workers is enormous, in many cases lifting people over the poverty line and expanding health care, training and vacation benefits. Taxpayers don't have to subsidize "low-road" companies by supplementing their low wages with food stamps, housing subsidies and emergency room health care for the uninsured.

There are also business benefits in paying a living wage. According to *Choosing the High Road,* "Studies and surveys of businesses that pay decent wages . . . describe real business advantages as a result of higher wages." Employees have higher morale, are more productive, and have lower absenteeism and turnover. Businesses also report improvements in the quality of products and services delivered to customers.[26]

Eliminating Public Subsidies for Wage Inequality

The issue of wage inequality touches a lot of nerves, particularly excessive salaries paid to CEOs and other professionals. The ratio between highest and average workers in the US now stands at 475:1, according to *Business Week.* Most people are incensed by the arrogance of top managers paying themselves multi-millions in pay while overall paychecks remain flat and workers are downsized out of jobs. They are even more outraged when they learn that corporations reduce the taxes they pay by deducting these entire salaries. As a result, other taxpayers pick up the revenue slack caused by excessive paychecks. One possible reform proposed by Congressman Martin Sabo (D-MN), the Income Equity Act, would deny corporations the right to deduct the excessive pay of top managers from corporate profits. Polling data suggests that such a reform would prove popular.[27]

Currently, the Internal Revenue Code allows all businesses to deduct "reasonable salaries and benefits" as a cost of doing business. "Reasonable," however, is not defined. A 1993 Congressional reform to cap the deductibility of salaries at $1 million is so full of loopholes that it is virtually useless. If the directors of a corporation declare that the pay of their top managers is "performance based," they avoid the cap.
Under the Income Equity Act, the deduction for executive pay is capped at 25 times the lowest paid worker in a firm. Under such a provision, companies could reduce their tax liability by raising the wage floor or reducing top pay.

The Income Equity Act would limit the tax-deductibility of executive compensation to salaries that do not exceed 25 times the lowest paid worker in a firm.

Eliminating the deductibility of pay accomplishes a number of things. One, it sets a social norm: corporations cannot expect tax subsidies for excessive and unequal pay. Two, it stimulates an important national debate about what the appropriate gap between highest and lowest paid workers should be. Finally, it generates revenue from corporations that have chosen to heap their profits on a limited few rather than distribute them widely to all workers. The amount of potential revenue is not insignificant. If the Income Equity Act had been applied to only the top two executives at the 365 companies covered in the *Business Week* pay survey, the act would have generated tax revenues of over $514 million in 1997 and $493 million in 1998.[28]

Shareholder Resolution Campaigns

In 1999, at least 18 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 national network of businesspeople, investors, and affluent Americans, filed eight resolutions calling on corporate boards to reduce pay disparities within their companies. These included resolutions at American Home Products, AT&T, Citigroup, Honeywell, Huffy, MBNA, Raytheon, and R.R. Donnelley. 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 millions of votes from shareholders, though no individual resolution won a majority of votes. A resolution to freeze CEO pay during periods of downsizing at bicycle maker Huffy drew the greatest shareholder support — 15.6%. A similar resolutions at Raytheon drew 10.0%. A resolution to establish a maximum ratio between highest and lowest paid employees at Honeywell drew 12.5% support from shareholders. 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 succeeded in encouraging the dialogue on excessive CEO pay. For example, one of those attending the Raytheon annual meeting was Reed Hinchliffe, a staff engineer at Raytheon, who took the day off from work to voice his anger that the CEO who denied

Unions could enforce a reduction in inequality by advocating wage ratios in their collective bargaining agreements.

him an annual bonus was rewarded with a $900,000 bonus, despite the fact that the company's stock price declined by half and more than 10,000 workers lost their jobs.

Expanding the Notion of a Wage Ratio

The Income Equity Act would limit the deductibility of executive compensation to salaries that do not exceed 25 times the lowest paid worker in a firm. Another set of reforms would broaden the establishment of reasonable ratios between highest and lowest pay to other aspects of public policy.

Limit Wage Disparities in Charitable Corporations

A number of so-called charitable nonprofit corporations have enormous disparities in their wages. Some non-profit health care providers pay their CEOs 150 times the lowest paid workers in their hospitals and care facilities.

Through our tax code, we grant special status and subsidies to certain types of corporations so that they can operate in the public interest. These are charitable, non-profit corporations, often with the Internal Revenue Status of Chapter 501(c)3 corporations. The benefits that flow to these entities include lower cost postage, exemption from sales tax, and the valuable ability to allow contributors to take tax deductions for contributions. These benefits cost the state and federal treasuries billions of dollars, but in principle these charitable corporations are performing valuable services that relieve burdens on government and serve the common good.

Following the principle that the public sector should not subsidize excessive inequality, we propose amending the definition of charitable corporations to include a maximum permissible wage ratio. We propose that corporations granted not-for-profit charitable status have a maximum ratio between highest and lowest paid workers of eight to one.

Incorporate Wage Ratios Into Collective Bargaining Agreements

Unions could enforce a reduction in inequality by advocating wage ratios in their collective bargaining agreements. Contracts could specify that when senior management wants to lift their own paychecks, the wage floor would also rise by a certain ratio. Trade unionists in other countries have negotiated such agreements and in the United States, the United Electrical Workers union has pressed for such provisions.

New Prosperity Indices Based on Income Ratios

The commonly used economic indicators in the U.S. fail to adequately measure genuine economic sustainability and health. There are hundreds of indicators used by the United Nations that are a more accurate measure of human welfare and economic strength. The ratio between top and bottom wage earners should become incorporated into regional and national indicators.

Appendix A: *Fortune* E-50 Companies - CEO Pay

Company	CEO	Unrealized options ($000)	1999 salary and bonus ($000)	Total 1999 compensation ($000)
E-COMPANIES				
America Online	Steve Chase	1,263,767	1,575	117,085
Charles Schwab	David Pottruck	363,848	9,000	127,900
Amazon.com	Jeffery P. Bezos	0	82	83
E*Trade Group	Christos M Cotsakos	103,079	1,679	9,596
Knight/Trimark Group	Kenneth Pasternak	96,875	19,405	19,405
Yahoo	Timothy Koogle	2,251,451	295	13,020
Ameritrade Holding	Thomas K. Lewis Jr.	0	489	489
Earthlink Network	Charles Betty	11,025	464	12,609
Priceline.com	Richard S. Braddock	296,094	300	300
CMGI	David S. Wetherell	321,884	559	3,033
Lycos	Robert J. Davis	63,167	250	6,350
Excite@Home	Thomas Jermoluk	4,688	700	700
eBay	Margaret C. Whitman	0	293	293
DoubleClick	Kevin J. O'Conner	215,964	219	219
RealNetworks	Robert Glasser	0	183	183
CNet	Halsey M. Minor	58,425	225	225
Healtheon	W. Michael Long	95,425	250	3,350
eToys	Edward Lenk	26,102	105	105
VerticalNet	Mark Walsh	217,067	300	10,543
NET SOFTWARE AND SERVICE COMPANIES				
Microsoft	William H Gates	0	623	623
Oracle	Lawrence J. Ellison	246,655	3,752	13,784
Intuit	Stephen M. Bennett	19,286	974	11,724
Network Associates	William L. Larsom	50,377	786	786
Cambridge Tech. Prtn	Jack L. Messman	15,699	771	771
TMP Worldwide	Andrew J. Mcklevey	0	833	833
Ariba	Keith J. Krach	0	167	167
Citrix Systems	Mark B. Templeton	90,182	489	7,464
Macromedia	Robert K. Burgess	62,964	884	17,403
Network Solutions	James P. Rutt	118,102	559	1,007
Concentric Network	Henry R. Nothhaft	6,836	382	2,890
Exodus Communications	Ellen Hancock	471,741	250	10,235
BroadVision	Pehong Chen	510,188	352	352
Inktomi	David C. Peterschmidt	175,987	509	6,500
Security First Technologies	James S. Mahan III	199,632	200	200
Razorfish	Jeffries Dachis	15,170	54	54
NET HARDWARE COMPANIES				
IBM	Louis V. Gerstner Jr	481,350	9,266	102,249
Lucent Technologies	Richard A McGinn	218,251	6,387	8,553
Intel	Craig R. Barrett	173,445	3,116	3,116
Dell Computer	Michael S. Dell	945,288	1,017	1,017
Cisco Systems	John T. Chambers	482,453	943	121,700
Sun Microsystems	Scott G. McNealy	295,798	3,739	3,739
EMC	Michael C. Ruettgers	257,448	2,193	15,559
Qualcomm	Irwin M. Jacobs	357,009	1,748	1,748
Network Appliance	Daniel J. Warmenhoven	39,643	573	7,673
Broadcom	Henry T. Nicholas	110,399	110	31,763
Juniper Networks	Scott G. Kriens	47,363	175	175
NET COMMUNICATIONS COMPANIES				
AT&T	C. Michael Armstrong	26,289	4,341	6,800
MCI WorldCom	Bernard J. Ebbers	325,037	8,435	8,435
Qwest Communications	Joseph P. Nacchio	467,546	1,543	69,103
Global Crossing	Robert Annunziata	148,342	11,465	13,708
AVERAGE		234,947	2,060	15,912
TOTAL		11,747,340		

Source: "*Fortune* e-50," www.fortune.com. *Fortune* updates the e-50 list on its website every three months. This list is from the second quarter of 2000.

Appendix B: *Fortune* E-50 Companies - Employees and Revenues

Company	Employees	1999 Revenues ($ millions)
E-COMPANIES		
America Online	12,100	4,777
Charles Schwab	18,100	4,113
Amazon.com	7,500	1,015
E*Trade Group	1,735	621
Knight/Trimark Group	615	618
Yahoo	803	341
Ameritrade Holding	985	301
Earthlink Network	4,828	254
Priceline.com	194	189
CMGI	1,594	176
Lycos	785	136
Excite@Home	2,319	129
eBay	138	125
DoubleClick	482	103
RealNetworks	434	89
Cnet	671	79
Healtheon	648	68
eToys	306	38
VerticalNet	220	8
NET SOFTWARE AND SERVICE COMPANIES		
Microsoft	31,396	19,747
Oracle	43,800	9,063
Intuit	4,025	848
Network Associates	2,686	785
Cambridge Tech. Prtn	4,444	628
TMP Worldwide	5,200	585
Ariba	386	454
Citrix Systems	620	323
Macromedia	1,003	167
Network Solutions	888	142
Concentric Network	N/A	110
Exodus Communications	472	108
BroadVision	73	71
Inktomi	505	71
Security First Technologies	1,626	44
Razorfish	1,355	36
NET HARDWARE COMPANIES		
IBM	291,067	87,448
Lucent Technologies	153,000	38,303
Intel	70,200	28,194
Dell Computer	36,500	21,670
Cisco Systems	21,000	12,154
Sun Microsystems	29,700	11,726
EMC	17,700	4,459
Qualcomm	9,700	3,937
Network Appliance	816	335
Broadcom	436	335
Juniper Networks	190	31
NET COMMUNICATIONS COMPANIES		
AT&T	147,800	56,968
MCI WorldCom	77,000	30,720
Qwest Communications	10,000	3,424
Global Crossing	12,400	691

Source: *"Fortune* e-50," www.fortune.com. *Fortune* updates the e-50 list on its website every three months. This list is from the second quarter of 2000.

Endnotes

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Resources

Past Editions of Executive Excess

The past editions of the IPS/UFE CEO pay studies listed below are available online at www.ufenet.org:

A Decade of Executive Excess: The 1990s (Sixth Annual Executive Compensation Survey), September, 1999. This edition focused on major trends of the decade, economic arguments against exorbitant CEO pay, the most undeserving CEOs of the decade, and a survey of what can be done.

Executive Excess '98: CEOs Gain From Massive Downsizing (Fifth Annual Executive Compensation Survey), April, 1998. Focuses on layoff leaders, international banking executives, job-shifters to Mexico, and the citizens' response to runaway executive pay.

Executive Excess '97: CEOs Gain From Massive Downsizing (Fourth Annual Executive Compensation Survey), May, 1997. Focuses on layoff leaders and efforts to close the wage gap.

Other Publications

Economic Apartheid in America: A Primer on Economic Inequality and Insecurity, by Chuck Collins and Felice Yeskel with United for a Fair Economy (New Press, 2000).

Field Guide to the Global Economy, by Sarah Anderson and John Cavanagh with Thea Lee (New Press, 2000).

Choosing the High Road: Businesses That Pay a Living Wage and Prosper, by Karen Kraut, Scott Klinger and Chuck Collins (Responsible Wealth, 2000). Available online at www.responsiblewealth.org.

Divided Decade: Economic Disparity at the Century's Turn, by Chuck Collins, Chris Hartman, and Holly Sklar (United for a Fair Economy, 1999). Available online at www.ufenet.org.

Shifting Fortunes: The Perils of the Growing American Wealth Gap, by Chuck Collins, Betsy Leondar-Wright, and Holly Sklar (United for a Fair Economy, 1999).