
Executive Excess 2007

The Staggering Social Cost of U.S. Business Leadership

14th Annual CEO Compensation Survey



Co-Authors:

Sarah Anderson, John Cavanagh, Chuck Collins, Sam Pizzigati, Institute for Policy Studies
Mike Lapham, United for a Fair Economy

Research Assistance: Jeremy Koulish and Samson Osoro

Embargoed until: August 29, 2007



About the Authors

Sarah Anderson is the Director of the Global Economy Project at the Institute for Policy Studies and co-author, with John Cavanagh and Thea Lee, of *Field Guide to the Global Economy* (New Press, 2005).

John Cavanagh is the Director of the Institute for Policy Studies and co-author of *Alternatives to Economic Globalization* (Berrett-Koehler, 2004).

Chuck Collins is a senior scholar at the Institute for Policy Studies where he directs the Program on Inequality and the Common Good. He was a co-founder of United for a Fair Economy, and his latest book, the co-authored *The Moral Measure of the Economy* (Orbis, 2007), appeared earlier this year.

Sam Pizzigati is an Associate Fellow of the Institute for Policy Studies and the author of *Greed and Good: Understanding and Overcoming the Inequality That Limits Our Lives* (Apex Press, 2004). He edits *Too Much*, an online weekly on excess and inequality.

Mike Lapham is Director of Responsible Wealth, a project of United for a Fair Economy. He was co-author of the 2004 report "I Didn't Do It Alone: Society's Contribution to Individual Wealth and Success."

Acknowledgements

Layout: Chris Hartman

The authors would like to thank the following individuals for providing valuable comments on this report: Charlie Cray, Center for Corporate Policy, and Dedrick Muhammed, Institute for Policy Studies.

The Institute for Policy Studies is an independent center for progressive research and education founded in Washington DC in 1963. IPS scholar-activists are dedicated to providing policymakers, journalists, academics, and activists with exciting policy ideas that can make real change possible.

United for a Fair Economy is an independent national nonprofit that works to raise awareness about how concentrated wealth and power undermine the economy, corrupt democracy, deepen the racial divide, and tear communities apart. UFE supports and helps build social movements for greater equality.

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Institute for Policy Studies
1112 16th St. NW, Suite 600
Washington, DC 200036
Tel: 202 234-9382
Fax: 202 387-7915
Web: www.ips-dc.org
Email: saraha@igc.org

United for a Fair Economy
29 Winter Street
Boston, MA 02108
Tel: 617-423-2148
Fax: 617-423-0191
Web: www.FairEconomy.org
Email: info@FairEconomy.org

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Key Findings

1. CEOs v. Workers

The Pay Gap

- CEOs of large U.S. companies last year made as much money from just one day on the job as average workers made over the entire year. These top executives averaged \$10.8 million in total compensation, over 364 times the pay of the average American worker, a calculation based on data from an Associated Press survey of 386 *Fortune* 500 companies.
- The private equity boom has pushed the pay ceiling for American business leaders considerably further into the economic stratosphere. The top 20 private equity and hedge fund managers, *Forbes* magazine estimates, pocketed an average \$657.5 million, or 22,255 times the pay of an average U.S. worker.
- Workers at the bottom rung of the U.S. economy have just received the first federal minimum wage increase in a decade. But the new minimum wage of \$5.85 still stands 7 percent below where the minimum wage stood a decade ago in real terms. CEO pay, over that same decade, has increased by roughly 45 percent.

The Pension and Perks Gap

- CEOs at major American corporations enjoyed, on average, \$1.3 million in pension gains last year. By contrast, only 58.5 percent of American households led by a 45-to-54-year old even had a retirement account in 2004, the most recent year with data. Between 2001 and 2004, the retirement accounts of these average households gained only \$3,775 in value per year.
- CEOs of S&P 500 companies, according to Corporate Library data, retire with an average \$10.1 million in their Supplemental Executive Retirement Plan, just one type of special account large American companies routinely set up for their top executives. But most Americans now move into their retirement years with no pension protection whatsoever. In 2004, only 36.3 percent of American households headed by an individual 65 or older held any type of retirement account. The accounts that did exist, on a per household basis, averaged only \$173,552 in value, a miniscule 1.7 percent of the dollars in the supplemental accounts set aside for America's top CEOs.
- The top 386 CEOs took in perks worth an average \$438,342 in 2006. These perks ranged from using private company jets for personal travel to reimbursements for country club fees, commuter expenses, and even the extra taxes due on bonus income. A minimum wage worker would need to work for 36 years to earn the equivalent of what CEOs averaged just in perks last year.

2. U.S. Business Leaders v. Other U.S. Leaders

- Compensation for American business leaders now wildly dwarfs the pay that goes to leaders in other sectors of American society. The 20 highest-paid individuals at publicly traded corporations last year took home, on average, \$36.4 million. That's 38 times more than the 20 highest-paid leaders in the nonprofit sector and 204 times more than the 20 highest-paid generals in the U.S. military.

-
- The 20 highest-paid figures in the private equity and hedge fund industry collected 3,315 times more in average annual compensation in 2006 than the top 20 officials of the federal government’s executive branch, a group that includes the President of the United States.

3. U.S. Business Leaders v. European Business Leaders

- American business executives appreciably out-earn their European counterparts. In 2006, the 20 highest-paid European managers made an average of \$12.5 million, only one third as much as the 20 highest-earning U.S. executives took home last year.

4. Proposals for Change

- **Eliminate tax subsidy for excessive CEO pay:** Corporations currently deduct bloated CEO pay packages as “business expenses.” One legislative proposal would cap the amount of executive compensation that corporations are permitted to deduct to 25 times the pay of a company’s lowest paid worker. Such a cap, if in place last year, would have generated more than \$1.4 billion from fewer than 400 companies. This would have been enough to hire 30,000 elementary school teachers for an entire year.
- **Make sure investment fund executives pay their fair share of taxes:** Top partners in America’s private equity and hedge fund industry currently pay taxes on most of their multi-million-dollar incomes at less than half the 35 percent tax rate in effect on ordinary income.
- **Cap “deferred” executive pay:** Average Americans can defer, through their 401(k)s, only \$15,500 of their incomes. Top executives face no limits on the pay they can defer into special accounts that compound tax-free.
- **Eliminate the tax reporting loophole on CEO stock options:** Corporations are currently allowed to report one set of executive stock option compensation figures as expenses on their financial statements and a completely different set of figures — often a much larger amount — on their tax returns. Legislation about to be introduced in Congress would require corporations to disclose the same information about executive stock options to the IRS as they do to their shareholders.
- **Link government procurement to executive pay:** Federal law already limits the amount of pay that a company with a government contract can bill the government for executive compensation. But corporations whose stock soars after gaining a federal contract can pay executives whatever they please. The federal government could limit these windfalls by denying contracts to firms that pay top executives over 25, 50, or even 100 times what their lowest-paid workers receive.
- **Increase the top marginal tax rate on high incomes.** Executive pay in the United States began to skyrocket in the early 1980s, the same years that tax rates on America’s richest taxpayers began to plummet. More progressive tax rates would help send a powerful cultural message that extreme income concentration undermines democracy and the common good.

I. Introduction

What's the "going rate" for leadership in the United States today?

This question would once have made little sense. Years ago, we didn't treat "leadership" as a marketable skills set. Today we do. We have academic centers that teach leadership, headhunters who search for it.

Our grand enterprises and institutions still sometimes hire their top leaders from within. But they feel no pressure to hire someone already deeply steeped in the specific work they do. They seek, or at least claim to seek, proven leadership ability, from individuals who have demonstrated a capacity to innovate and inspire, analyze and imagine.

A good leader, we have come to believe, can perform successfully almost anywhere. The CEO of Home Depot can become the head of Chrysler. A military general can become a school superintendent. You need not know how a particular industry operates to play a leadership role within it. You need only know how to lead. Leadership skills, and leadership skills alone, can make you eminently marketable.

Every market, of course, sports a "going rate." Try to collect significantly above that "going rate," if your skill be computer programming or selling real estate, and you'll likely get nowhere quick.

But the market for leadership doesn't seem to work that way. Some individuals with leadership skills in our contemporary United States — those individuals who sit atop America's business enterprises — are capturing far more compensation for their labors than individual leaders in other fields who appear to hold the same exact leadership skill set.

Indeed, our current pay gap between American business leaders and their leadership counterparts in other walks of American life today runs wider, often far wider, than the pay gap a generation ago between business leaders and average American workers.

Back around 1980, big-time corporate CEOs in the United States took home just over 40 times the pay of average American workers. Today's average American CEO from a *Fortune* 500 company makes 364 times an average worker's pay and over 70 times the pay of a four-star Army general.

Another example of this growing leadership pay gap: Last year, the top 20 earners in the most lucrative corner of America's business sector, the private equity and hedge fund world, pocketed 680 times more in rewards for their labors than the nation's 20 highest-paid leaders of nonprofit institutions pocketed for theirs.

Most Americans, over recent years, have become aware that business leaders make enormously more than the workers they employ. The gap between business leaders and other leaders in our society has received considerably less attention. This report, our 14th annual examination of executive excess, seeks to remedy that situation.

But we will begin this year's report on more familiar ground, with a review of the current status of the gap between business leaders and their workers. That gap remains at unconscionably wide levels.

Individuals who sit atop America's business enterprises are capturing far more compensation for their labors than individual leaders in other fields who appear to hold the same exact leadership skill set.

The vast rewards that go to business leaders in the United States represent a marketplace failure.

The CEOs of major American corporations, the data show, once again last year made as much in a day as average workers took in over the entire year. The 20 top kingpins of the private equity and hedge fund industry last year made more than average worker annual pay *every ten minutes*.

These numbers shock but do not surprise. We have come, as a society, to expect — and even accept — such phenomenally wide pay differentials between workers and business leaders. These differentials have come to appear as a given of modern economic life.

But modern economies, in reality, do not require excessive business executive pay to function. If they did, then the business executives that American executives compete against in the global marketplace would be just as excessively compensated as American executives. They aren't. Top executives of major European corporations, we show in this latest edition of *Executive Excess*, last year earned three times *less* than their American counterparts.

The vast rewards that go to business leaders in the United States represent, in short, not an inevitable unfolding of marketplace dynamics, but a marketplace failure.

Markets that fail need to be corrected, and, in generations past, Americans organized politically to make sure needed corrective action took place. These Americans broke up monopolies. They established a minimum wage. They regulated business behavior. *Executive Excess 2007* spotlights, in this historic spirit, a series of corrective initiatives we here today can take to restore a modicum of balance to modern American economic life.

We ignore initiatives like these at our peril. The outrageously massive rewards now attainable at the top of our economic ladder do our society no good. They ravage the enterprise teamwork that true leaders strive to nurture. They discourage individuals with leadership talent from entering less lucrative fields where their skills could make an important contribution to our common well-being.

In a democracy, we don't depend on leaders to fix problems like these. We citizens take leadership responsibilities onto ourselves. This year's *Executive Excess* aims to help this process along.

II. CEOs v. Workers

The CEO-Worker Pay Gap

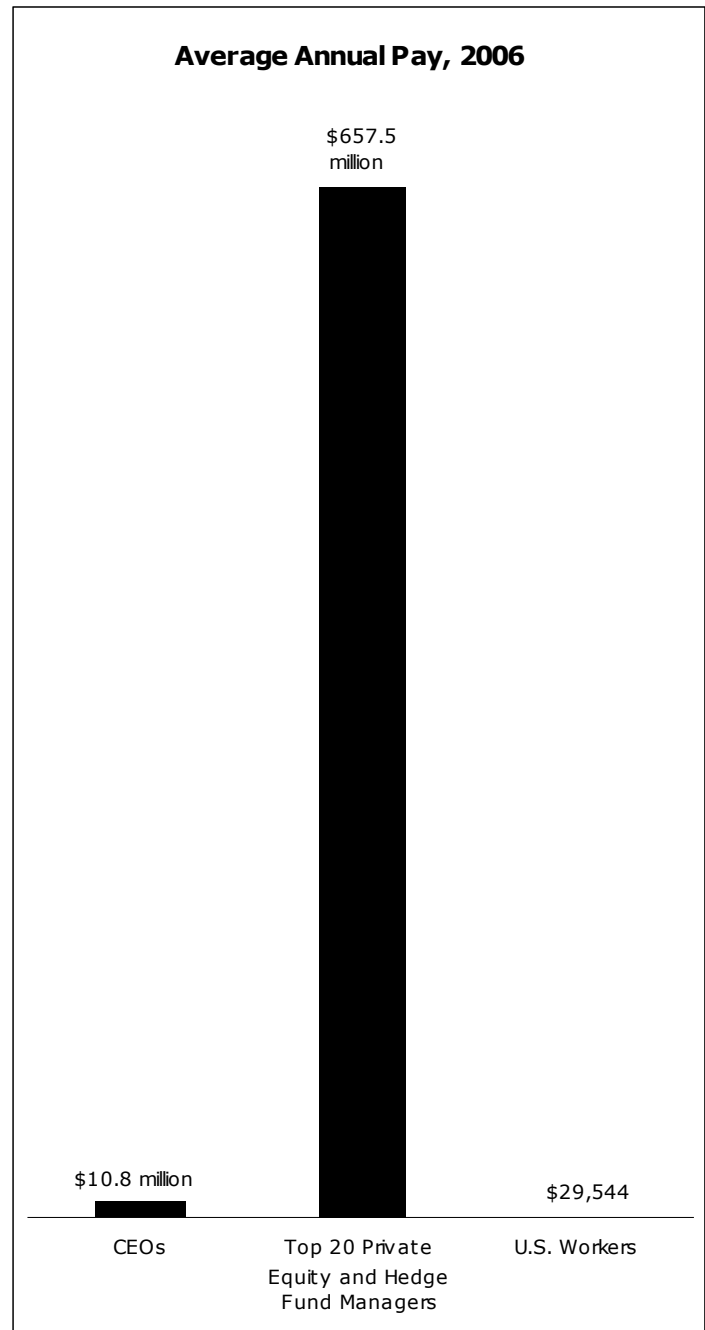
Last year, CEOs of major U.S. companies collected as much money from one day on the job as average workers made over the entire year. These CEOs averaged \$10.8 million in total compensation, according to an Associated Press survey of 386 *Fortune* 500 companies, the equivalent of over 364 times the pay of an average American worker.¹

Meanwhile, the private equity boom has pushed the pay ceiling for American business leaders further into the economic stratosphere. Pay data for the chiefs of these privately held firms remain difficult to obtain, but *Forbes* magazine estimates that the top 20 private equity and hedge fund managers, on average, took in \$657.5 million last year, or 22,255 times the pay of the average U.S. worker.²

These massive private equity take-homes have an enormous impact on inequality in the United States, at both ends of the economic ladder. Private equity managers, to extract such massive personal rewards out of the companies that sit in their portfolios, typically make decisions — on matters ranging from job cuts to pensions — that place steady downward pressure on U.S. working standards.

Astronomical pay packages for managing partners at privately held investment companies also serve to bump up the already overly ample pay of CEOs at publicly traded corporations. CEOs are now routinely leaving their corporate perches to take on far more remunerative leadership slots in the private equity world. Those who remain within publicly traded corporations, meanwhile, use the threat of exit to bargain even higher pay for their executive services.

To retain leadership talent, the argument goes, publicly traded companies must simply pay more. This past



Sources: CEOs: Calculated by the authors based on data from an Associated Press survey of 386 *Fortune* 500 companies. Private Equity and Hedge Fund Managers: *Forbes* magazine, May 21, 2007. U.S. workers: U.S. Department of Labor, Bureau of Labor Statistics. (See details in Appendices 1, 2 and 8.)

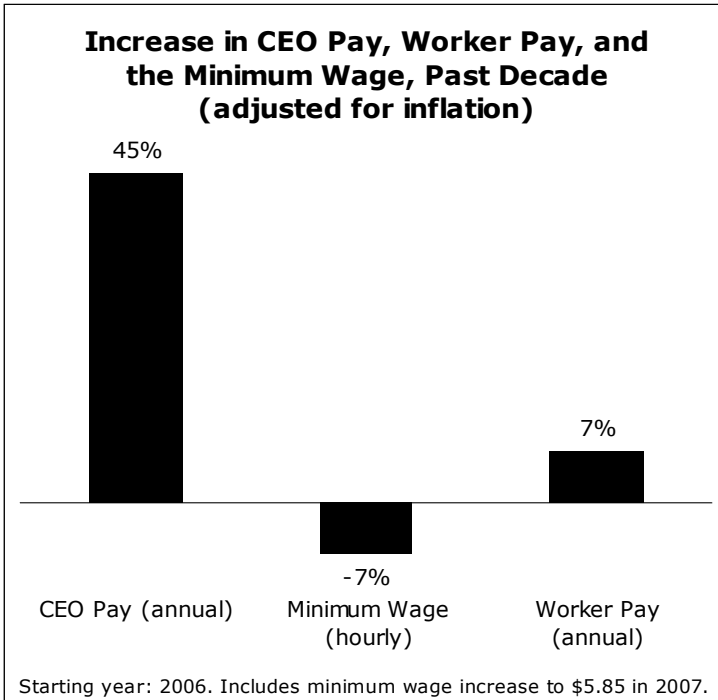
CEO Pay: New Reporting Rules Are Changing the Counting

As a result of changes in Securities and Exchange Commission disclosure requirements that officially went into effect last December, the CEO-worker pay ratio we highlight in this year's *Executive Excess* report comes close, but does not exactly compare, to the ratios that appeared in our previous reports.

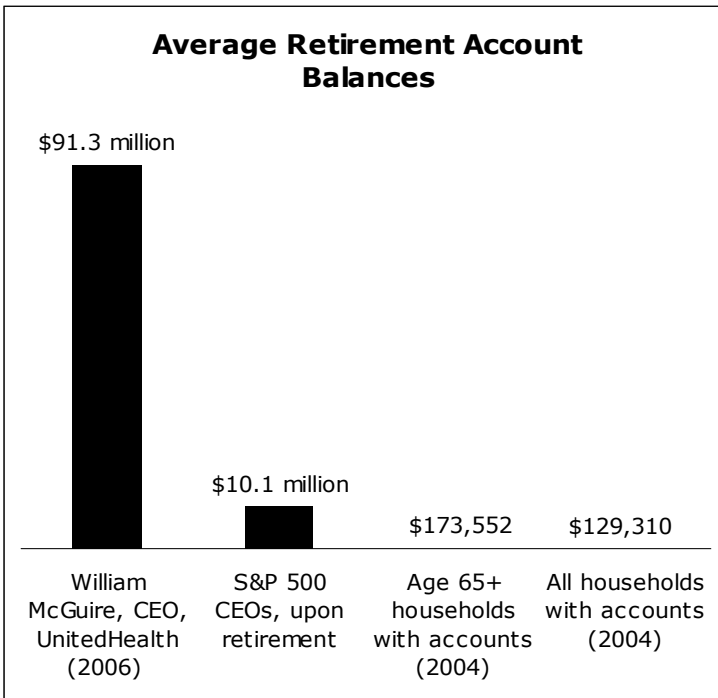
In our CEO-worker pay ratio calculations, we have also changed how we define executive income. We are including in our executive pay totals this year the value of stock options on the date they are awarded. We are not including the personal profit chief executives clear when they actually exercise their options. Additionally, following the Associated Press methodology, we include in our executive pay totals only the above-market earnings on deferred compensation, that is, the return the company guarantees on pay the executive has had set aside in special tax-deferred accounts.

In some cases, our new approach to calculating CEO pay understates the income that many executives realized last year. We list, for example, Occidental Petroleum CEO Ray Irani's 2006 total pay at \$52.8 million. But Irani actually pocketed quite a bit more. He gained \$270.2 million cashing in stock options and another \$93.3 million in withdrawals from his deferred stock plan.

March, at a House Financial Services Committee hearing, one business professor cited massive private equity payoffs as evidence that CEOs “may even be underpaid at public companies.”³



Sources: CEO pay: Calculated by the authors based on data in surveys by the Associated Press, June 11, 2007 and the *Wall Street Journal*, April 10, 1997. Worker pay: U.S. Department of Labor, Bureau of Labor Statistics. (See details in Appendix 8.)



Sources: CEOs: Corporate Library, cited by Reuters and CNNMoney.com, June 11, 2007. Average Americans: Congressional Research Service analysis of the most recent Federal Reserve Board Survey of Consumer Finances.

Minimum Wage

This Labor Day, American workers can celebrate the first raise in the federal minimum wage in ten years. But the minimum wage increase that went into effect July 24 makes barely a dent in the gap between pay rates at the American economy’s top and bottom. In the decade that ended in 2006, CEO pay rose roughly 45 percent, adjusted for inflation.⁴ The real value of the minimum wage, with this year’s increase from \$5.15 to \$5.85, now stands 7 percent below the minimum wage’s value in 1996.⁵

Average worker pay has, over the past decade, also lagged far behind CEO compensation. In 2006, average American workers earned \$29,544 per year, up 7 percent from 1996.

The Pension Gap

New federal corporate disclosure rules are shining a brighter light on the stark disparity between CEO and worker pensions. According to data available in proxy statements for the first time this year, large company CEOs last year enjoyed a \$1.3 million average increase in the value of their pensions. The biggest CEO increase in pension account value — \$10.7 million — went to Textron’s Lewis B. Campbell.⁶ By contrast, the share of ordinary U.S. workers with any type of retirement account has declined in recent years.

According to the most recent Federal Reserve Board survey, only 58.5 percent of households headed by 45-to-54-year-olds had any type of retirement account in 2004, down from 64.3 percent in 2001. Of those in that age bracket who did have such funds, the average account value grew by only \$11,325 over those same three years, or roughly \$3,775 per year.⁷

According to the Corporate Library, CEOs of S&P 500 companies retire with an average of \$10.1 million in their Supplemental Executive Retirement Plan, just one type of special account large American companies regularly set up for

their top executives.⁸ To place that number in perspective: In 2004, only 36.3 percent of American households headed by an individual 65 years or older held any type of retirement account at all.

Those over-65 households *with* pension protection in 2004, according to the Congressional Research Service, held an average of \$173,552 in their retirement accounts, a miniscule 1.7 percent of the dollars in the supplemental accounts set aside for America's top CEOs. Looking at all American households, regardless of age, slightly more than half had retirement accounts in 2004. The average value of these accounts: \$129,310.⁹

Among the king-sized supplemental CEO pension stashes accumulated by the end of 2006: \$91.3 million for William McGuire of the UnitedHealth Group. Edward Whitacre of AT&T followed closely behind with \$84.7 million. Pfizer CEO Hank McKinnell accumulated \$77.1 million in his supplemental retirement account before his ouster last year.¹⁰

With even financially healthy U.S. companies, including IBM, Verizon, Motorola, Hewlett-Packard and Sears, slashing their worker pension benefits, the CEO-worker pension gap is likely to grow even wider.¹¹

New federal corporate disclosure rules are shining a brighter light on the stark disparity between CEO and worker pensions.

Peeking at Perks

Through rules that went into effect this past December, the Securities and Exchange Commission has lowered the threshold for disclosing perquisites from \$50,000 to \$10,000.

This new reporting requirement could be called the "Jack Welch Perk Pork Disclosure Provision," in recognition of the extravagances enjoyed by General Electric's retired CEO. In 2002, as part of a divorce proceeding, Welch was forced to disclose perks that included country club fees, use of a Manhattan apartment and private jet, season tickets for Red Sox, Yankees, and Knicks games, as well as court-side seats at Wimbledon and the U.S. Open.

The brighter light now shining on corporate perks, SEC officials believe, will begin to rein in perk excess. But the new disclosure rules did not stop some companies last year from loading up already ample compensation packages. Average perks for our sample were valued at \$438,342.¹² An employee earning the minimum wage would need to work for 36 years to earn that amount.

Perk Porker of the Year: Chad Dreier, CEO of Ryland Group, received a salary of \$1 million, modest by CEO standards. But the company's proxy reveals that Dreier received an additional \$6,977,759 for private aircraft use, life insurance, tax payments, reimbursement for out-of-pocket medical care, and \$80,000 for a "personal health and services allowance."¹³

Extra Legroom on Those Private Jets. CEOs who made good use of private jets for personal travel last year included Michael Jeffries of Abercrombie & Fitch (\$776,723 worth), George David of United Technologies (\$612,303), and Barry Diller of IAC/InterActiveCorp (\$517,214). By contrast, Jim Sinegal of Costco, a company known for its ethical pay practices, reimbursed his company \$62,463 for his use of the corporate jet.¹⁴ Some other companies are cutting back on the perk. Ford Motor executive Mark Fields, for example, will no longer get to use the company jet on weekends (valued at \$517,560 in 2006). He'll have to settle for first-class fares on commercial airlines.

A Little Help with Moving and Commuting Expenses. Steven J. Heyer, CEO of Starwood Hotels, received \$1,742,522 for commuting between his Atlanta home and the company's New York headquarters. The company explained that Heyer, who has since been ousted for inappropriate conduct with a female employee, is a Georgia resident for income tax purposes.¹⁵ Boeing's James W. McNerney was given \$1,059,706 to relocate 400 miles from Maplewood, Minnesota to Chicago, Illinois, at the cost of \$2,643 per mile.¹⁶

We Pay Your Taxes. Some companies actually pay a share of their CEOs' taxes. The biggest perk to Ryland CEO Chad Dreier was a \$5.7 million "tax gross-up adjustment" to cover the taxes on his stock options. Public Storage Inc. paid CEO Ronald Havner Jr.'s \$2.6 million tax bill on a \$6.4 million bonus.¹⁷

To limit leadership pay gaps, we need to address the problem of excessive pay in the for-profit sector.

III. U.S. Business Leaders vs. Other U.S. Leaders

Healthy democracies and dynamic economies require strong leadership, in every sector of society. But current pay practices in the United States send a quite different message: that only for-profit business leadership really matters.

Business leaders, our compensation patterns proclaim, add tens, hundreds, and even thousands of times more value to our society than the leaders we hold responsible for educating our youth, protecting our national security, providing essential public services, or crafting the laws that govern us.

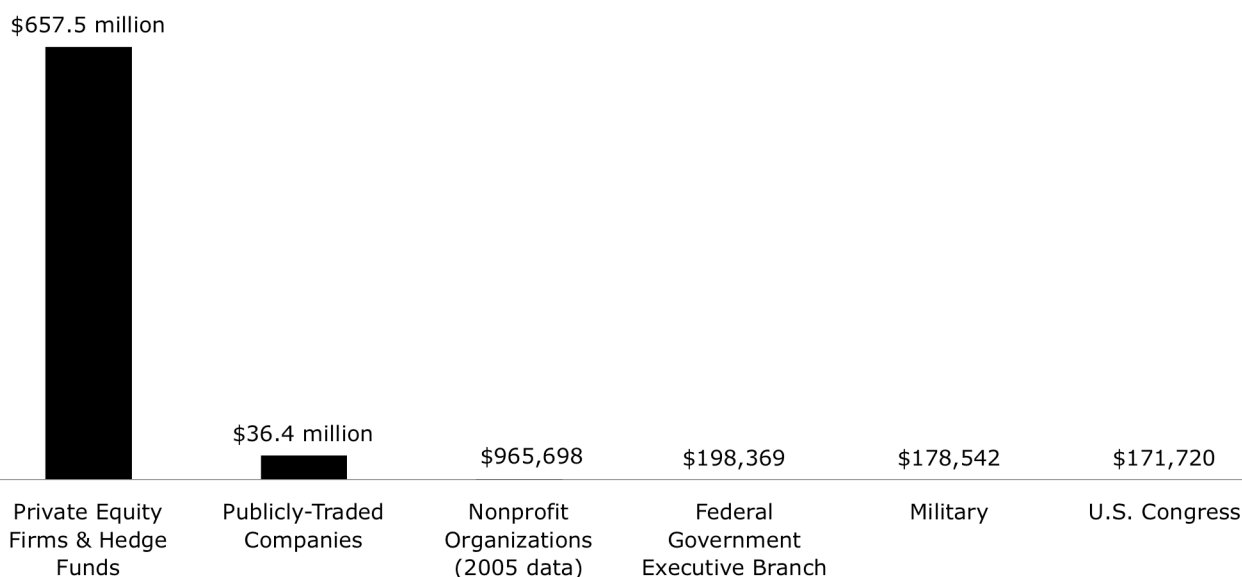
Such extreme pay gaps undermine our future. These gaps siphon off talent from public service and create a nonstop revolving door between government and the business world that breeds conflict of interest and corruption and distorts our democracy.

Top leaders in non-business sectors of our society already earn comfortable incomes. These incomes do not need to be raised. To limit leadership pay gaps, we need to address the problem of excessive pay in the for-profit sector.

Private Equity and Hedge Funds

The top 20 highest-earning leaders of private equity and hedge funds collected an average of \$657.5 million in 2006. The top four each pocketed over \$1 billion.¹⁸ These men — and they are all white men — are leading a revival of the 1980s leveraged buyout phenomenon that hollowed out a variety of once-venerable companies,

Average Pay of the 20 Highest-Paid U.S. Leaders, by Sector, 2006



Sources: Private Equity and Hedge Funds: *Forbes*, May 21, 2007. Public Companies: calculated by the authors based on Associated Press survey, June 11, 2007; Nonprofit Leaders: *Chronicle of Philanthropy*, September 28, 2006. Federal Government: U.S. Office of Personnel Management and Budget and White House press releases; Military: Defense Finance and Accounting Service; Congress: Associated Press, June 15, 2007. (See details in Appendices I-6.)

while enriching a precious few. Last year saw more than 1,000 corporate buyouts worldwide, with a total value estimated between \$500 and \$700 billion.¹⁹ Hedge funds now account for 30 to 60 percent of daily global turnover in financial markets.²⁰

Unlike companies that are publicly traded on Wall Street, private equity and hedge funds are not required to report executive compensation to the federal Securities and Exchange Commission. These funds also rely on different forms of compensation. Investment managers reap their rewards primarily from management fees and a share of the profits from fund investments, rather than from stock options, salary, and bonuses.

Private equity and hedge fund managing partners typically receive 20 percent of the profits their funds generate and an annual fee that equals 2 percent of the assets they manage. Some managers demand even higher rewards. For example, James Simons

Private equity and hedge funds are driving a speculative investment craze that raises a number of concerns that should trouble anyone who worries about the public interest.

Investment Boom for Whom?

Private equity and hedge funds are driving a speculative investment craze that raises a number of concerns that should trouble anyone who worries about the public interest.

Instability: Private equity firms gain control of companies and force them to restructure before selling them again, while hedge funds specialize in aggressive, short-term trading. But both types of funds borrow heavily to invest much more money than they actually have. This largely unregulated gambling puts their pension fund clients at tremendous risk and jeopardizes the future of workplaces that employ hundreds of thousands of people.

Squeezing Workers: Private equity firms typically attempt to quickly increase the value of firms they buy through drastic cost-cutting that hits workers hardest.²¹ Private equity firms also often pump up the companies they take over with debt, extracting massive special dividends and management fees that can lead to bankruptcy.

Buyout-Related Layoffs in Recent Years

Company	Number of Job Cuts	% of Workforce	Buyer
Travelport	841	10	Blackstone Group
Hertz	> 2,000	8	Clayton, Dubilier & Rice and Merrill Lynch
VNU (parent of Nielsen Media Research)	4,100	10	AlInvest Partners, Blackstone Group, Carlyle Group, Hellman & Friedman, Kohlberg Kravis Roberts, and Thomas H. Lee Partners
Warner Music	1,000	20	Thomas H. Lee Partners and Bain Capital
KB Toys	4,000	33	Bain Capital
Intelsat	194	20	Apax Partners, Apollo Management, MDP Global Investors, and Permita Advisers

Lack of Accountability: These privately held funds are neither accountable to shareholders nor required to report on their activities to the SEC.

Some argue that this new generation of high-flying financiers is giving back to society through charity. But only two of the top 20 highest-paid in 2006 made it onto the *Chronicle of Philanthropy's* list of the year's most generous donors. T. Boone Pickens came in ninth among the 61 people who donated \$30 million or more last year to charity. Pickens gave \$171.5 million, most of it to create a new foundation. Philanthropic heavyweight George Soros tied for 32nd place, with \$60 million, with most of that going to fight poverty in Africa.²²

Only two of the top 20 highest-paid private equity and hedge fund managers made it onto the Chronicle of Philanthropy's list of the year's most generous donors.



Louis XVI
Royalty

Kenneth Griffin
Citadel Investment
Group
Wannabe Royalty

commands 44 percent of profits and 5 percent of assets from investors in his two hedge funds, Medallion and Renaissance Institutional. Last year, he raked in \$1.1 billion from Medallion and \$395 million from Renaissance. His total earnings: nearly \$1.5 billion.

After Simons, Steven Cohen of SAC Capital scored the second-highest Wall Street investment fund windfall, with \$1.2 billion. Cohen's wealth has proved a boon to art dealers. He recently acquired an Andy Warhol image of Marilyn Monroe, "Turquoise Marilyn," for an estimated \$80 million, nearly three times the price garnered for a similar painting by the pop artist.²³

Cohen shared second place on the investment fund payday list with Kenneth Griffin, head of Citadel Investment Group. The 38-year-old Griffin has also made a name for himself as an art collector and will soon have his name etched on a section of the Art Institute of Chicago. For the site of his second wedding in 2003, Griffin chose Versailles, where the ill-fated King Louis XVI and Marie Antoinette also tied the knot.²⁴

Two of last year's 20 highest-paid hedge fund managers first became public figures as 1980s-era corporate raiders. T. Boone Pickens, for example, made a fortune two decades ago bidding for Gulf Oil and other big oil companies. His current hedge fund, BP Capital, invests almost exclusively in the energy industry and last year generated \$1.1 billion in earnings for Pickens.

Another icon of the "greed is good" 1980s, Carl Icahn, cleared \$350 million in 2006. Most notorious for his 1986 takeover of TWA, a company he left in bankruptcy, Icahn today heads the Icahn Partners fund, a two-year-old venture that manages about \$2.5 billion in assets.

Publicly Traded Companies

The top 20 highest-paid executives of U.S. publicly traded companies raked in an average \$36.4 million in 2006.²⁵ The top earner: Yahoo's Terry Semel, whose \$71.7 million in annual earnings consisted almost entirely of options grants estimated to be worth \$71.4 million. The Internet services chief also cashed in \$19 million in options last year. Semel stepped down as CEO in June, amid widespread shareholder concern over the company's sluggish performance.

The second- and third-highest-paid U.S. CEOs last year both hailed from the oil industry, a sector that continues to benefit from record-high world crude oil prices. Bob Simpson of Texas-based XTO Energy took in \$59.5 million, including a \$31 million cash bonus and \$27 million worth of new options grants. He cleared another \$39.8 million exercising previously awarded options.

XTO Energy last year also donated \$6.8 million to Baylor University, Simpson's alma mater, for the construction of a sports complex. In exchange, the XTO proxy explains, the university will name the new athletic complex after Simpson — and provide him "access to certain sporting events."

The sixth-highest-paid CEO in 2006 was Angelo Mozilo of Countrywide Financial, with \$42.9 million. In July 2007, the company's sub-prime mortgage woes drove its foreclosure rates to the highest level in more than five years and contributed to a global liquidity crisis.

Non-Profits

In 2005, the most current year with data available, the 20 highest-paid nonprofit leaders in the United States averaged \$965,698 in compensation.²⁶ The highest-paid — Harold Varmus, the chief executive of the Memorial Sloan-Kettering Cancer Center in New York — earned \$2,491,450. Varmus won the 1989 Nobel Prize for his research on the genetic basis of cancer.

The lowest-paid of the 20 top nonprofit leaders, University of Pennsylvania President Amy Gutmann, collected \$675,000 for her labors overseeing a school with nearly 24,000 students and 5,000 faculty members. UPenn's budget last year totaled \$4.87 billion, more than the revenues of XTO Energy, whose CEO gathered up nearly \$60 million in 2006.²⁷ Five university presidents, besides Gutmann, appear on the top 20 nonprofit pay list.

Over the last several years, several scandals have taken down nonprofit leaders who seem to have yearned to live the same imperial lifestyles as their corporate counterparts. Lawrence Small, a former banker, stepped down as head of the Smithsonian Institution in early 2007 after reports that his lavish leadership style required \$2 million worth of spending on chauffeured cars, private jets, and exclusive hotels. Benjamin Ladner lost his job as American University president in 2005 after news reports revealed he had spent university money on personal chefs, limousines, and extravagant family parties.

Federal Executive Branch

By law, the President of the United States earns the highest salary in the federal government, \$400,000 last year. Vice President Richard Cheney, who accumulated enormous wealth in the private sector before entering the Bush White House, made a government salary of \$208,575 in 2006. Rounding out the 20 highest-paid federal executive branch officials: 15 cabinet secretaries and other cabinet-level government executives who earn the top executive pay grade of \$186,600.²⁸

Military Service

In 2006, 15 top brass earned \$187,390, the highest military pay rate. These included the chair and vice chair of the Joint Chiefs of Staff, the heads of each branch of the military, as well as the chiefs of various specialized commands, such as John Abizaid, who retired this year as head of the Central Command. Abizaid oversaw some 250,000 U.S. troops in 27 countries, including Iraq and Afghanistan. High-ranking generals round out last year's military top 20. Their base pay: \$152,000.²⁹

All these generals are operating in an increasingly privatized war-time environment where many basic operations that used to be direct Pentagon responsibilities have been contracted out to powerhouse defense industry corporations. The CEOs of the top six defense contractors last year each pulled in between \$12 million and \$24 million. These included the chief executives of Lockheed Martin (\$24.4 million), Boeing (\$13.8 million), Northrop Grumman (\$18.6 million), General Dynamics (\$15.7 million), Raytheon (\$11.9 million), and Halliburton (\$16.5 million). Each of these six business leaders last year made more in a week than any of the generals made in a year.

The CEOs of the top six defense contractors last year each made more in a week than any of the top U.S. generals made in a year.

The huge gaps between congressional and business pay levels keep the revolving door spinning between Capitol Hill and K Street lobby groups.

U.S. Congress

The two highest-paid members of the U.S. Congress — the House speaker and Senate majority leader — each earned \$212,100 salaries in 2006. The minority leaders in both chambers earned \$183,500. All rank-and-file senators and representatives received \$165,200 in paychecks last year.³⁰

The lowest-paid corporate executive on last year's list of the 20 highest-paid CEOs in America — Viacom's Philippe Dauman — personally pocketed over seven times more compensation for his leadership labors than the 20 top leaders in Congress together.

The huge gaps between congressional and business pay levels keep the revolving door spinning between Capitol Hill and K Street lobby groups. According to Public Citizen, 43 percent of the members of Congress who left office between 1998 and mid-2005 eligible to lobby actually became lobbyists.³¹

This revolving door threatens government integrity in two ways:

- Members of Congress who are hoping to land lucrative private sector jobs have an incentive to shape public policy to please potential future employers or clients.
- Lawmakers-turned-lobbyists have privileged access to their former colleagues that can give them undue influence to advance their clients' interests.

In late July, the House of Representatives passed new ethics legislation that chooses not to extend the ban on lobbying by former House members from one to two years after their congressional service ends.

U.S. Top Corporate and Nonprofit Leadership Overwhelmingly White and Male

The race and gender breakdown of the 20 highest-paid leaders in the corporate and nonprofit sectors is as follows:

- Private equity and hedge fund managers: All white men
- Publicly held companies: 17 white men, one man of Lebanese descent, and two African-American men (no women)
- Nonprofit organizations: 18 white men and two white women

Government leadership has become much more diverse. The Bush administration's 15 Cabinet members include: two Latinos, two African-Americans, one Asian-American and four women. The U.S. Congress made history this year with the first female House Speaker. The military has made strong strides on diversity, except at the very top. Last year, the top 15 military leaders were all white men except Lebanese-American John Abizaid, who has since retired.

— Compiled by Dedrick Muhammad, Institute for Policy Studies

IV. U.S. Business Leaders vs. European Business Leaders

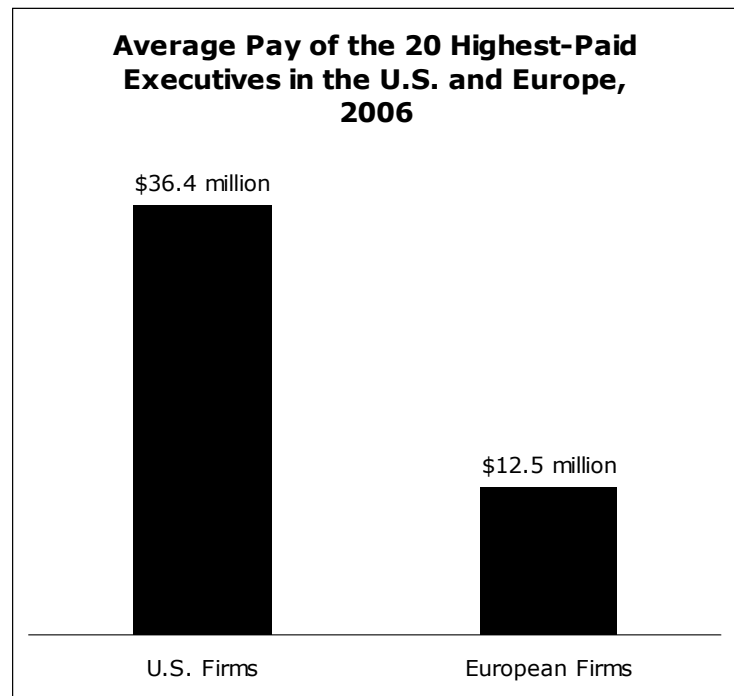
American executives continue to leave their European counterparts in the compensation dust, even after recent increases in European executive pay levels. In 2006, the 20 highest-paid European managers made an average of \$12.5 million, only one third as much as the 20 highest-earning U.S. executives. The Europeans earned less, despite leading larger firms. On average, the 20 European firms with the highest-paid executives on the continent had sales of \$65.5 billion, compared to \$46.5 billion for the 20 U.S. firms.³²

The gap between U.S. and European executives is actually running wider than the dollar-equivalence figures below suggest. The drastic fall in the value of the dollar against the euro serves to inflate the compensation European executives received last year.

French executives dominated the list, making up 10 of the 20 highest-paid European executives. The top-earning French executive, Carlos Ghosn of Renault, took in \$45.5 million, mostly in stock options. This total does not include Ghosn's compensation from Nissan. Ghosn has been CEO of both Renault and Nissan since 2005. Once considered a hero of the auto industry for resuscitating the Japanese automaker, Ghosn has had to face angry shareholders of late as both firms have performed sluggishly. Ghosn recently gave up his post as head of Nissan's North American operations.

The top-ranked German executive, Josef Ackermann of Deutsche Bank, collected \$12.4 million. Ackermann became a lightning rod figure in Germany's ongoing executive pay debate when he faced criminal charges for having helped approve, as a board member, massive bonuses for executives at another German company. Ackermann and five other board members at this company were charged with "breach of fiduciary trust." Ackermann's unapologetic defense of both the bonuses and his own massive paycheck provoked charges that the Swiss-born banker was injecting a more ruthless style of American capitalism into a relatively egalitarian German society. The former head of the German Social Democratic Party called Ackermann's behavior "disastrous to the image of democracy."³³

American executives continue to leave their European counterparts in the compensation dust.



Sources: U.S. Firms: Associated Press Survey, June 11, 2007. European Firms: Compiled by Board-Ex, published by Fortune International, August 6, 2007. (See details in Appendices 2 and 7.)

European Pay Debate

In Europe, over recent decades, business leaders have consistently taken home far less compensation than top business leaders in the United States. But European executive compensation has been rising, and these pay increases have citizens in Europe's largest nations deeply concerned. Some signs of the times:

- In Switzerland, a CEO of a small company is spearheading an effort to gather enough signatures to force a national vote on proposals for reining in pay, such as allowing shareholders to block pay packages and banning "golden parachutes," which guarantee that executives will receive large benefits if their employment is terminated.³⁴
- In France, new President Nicolas Sarkozy has promised to ban golden parachutes for poorly performing executives. The matter became a campaign issue when Airbus gave its top executive an exit pay package of \$8.2 million, despite having announced 10,000 job cuts.³⁵
- In Germany, a government commission on corporate governance recently proposed capping executive severance payments.³⁶

In the United Kingdom, shareholders obtained the right to cast advisory votes on executive pay in 2003. Since then, Australia and Sweden have followed suit, while the Netherlands and Norway have adopted binding annual shareholder votes on compensation.³⁷ Legislation that would give U.S. shareholders similar advisory powers passed the House of Representatives this spring.

A July 2007 *Financial Times*/Harris public opinion poll dramatically captured the growing European outrage over executive pay. Over 60 percent of those surveyed in the UK, France, Italy, and Spain, the poll found, would like to see their government set caps on top business executive pay. In Germany, a 47 percent plurality supports pay caps.³⁸

V. Proposals for Change

This section highlights six practical initiatives that can rein in excessive executive pay. Five involve more equitable taxation, while one would use government contracting dollars to encourage more reasonable pay.

Recent polls suggest that these reforms would enjoy broad public support. The same July 2007 *Financial Times*/Harris poll that found widespread European support for capping executive pay found that 77 percent of Americans feel that corporate executives “earn too much.” Only 11 percent admire “those who run” America’s “largest companies” either “a great deal” or “quite a bit.”

On top of that, Americans — by an overwhelming margin — want to see their nation’s top income-earners pay more in taxes. Just 12 percent of Americans feel their country “correctly taxes those who earn the highest incomes.” Five times that number, 61 percent, feel wealthy Americans “should be taxed more.”

Proposals

Eliminate Tax Subsidies for Excessive CEO Pay

Under current law, corporations can deduct, as a “business expense,” whatever excessive pay packages they hand their top executives, simply by defining that excess as a “performance incentive.” This tax loophole essentially operates as an incentive for excessive compensation. The more corporations shell out in executive compensation, the less they pay in taxes. And the rest of us taxpayers wind up paying the bill.

Rep. Barbara Lee (D-Calif.) is promoting a reform that would cap the amount of executive compensation corporations are permitted to deduct to 25 times the pay of a company’s lowest paid worker. Corporate boards would still be allowed to pay their executives as much as they wanted. They just wouldn’t be able to deduct excessive amounts from their taxes.

If such a deductibility cap had been in place last year, the 386 companies included in the Associated Press pay survey would have paid as much as \$1.4 billion more in 2006 taxes — just on their CEOs’ compensation alone.³⁹ That additional revenue, if earmarked for reducing class sizes in overcrowded schools, would have been enough to pay the annual salaries of 29,218 elementary school teachers.⁴⁰

And that’s just the amount that would have been generated by capping the deductibility of CEO pay at these 386 firms. Rep. Lee’s proposal, if enacted, would apply to all top management compensation within a company that exceeds the 25-to-1 ratio.

Down through the years, many noted figures in the business world have argued for reasonable ratios between executive and worker pay. A century ago, financier J. P. Morgan insisted on 20-to-1 ratios, a theme picked up in more recent times by Peter Drucker, the founder of modern management science.

A July 2007 poll found that 77 percent of Americans feel that corporate executives “earn too much.”

Just 12 percent of Americans feel their country “correctly taxes those who earn the highest incomes.”

Five times that number, 61 percent, feel wealthy Americans “should be taxed more.”

End the Preferential Tax Treatment of Private Investment Company Executive Income

Rep. Sander Levin (D-Michigan) has introduced legislation that would plug the tax loophole that allows managers of the nation’s private equity and hedge funds, individuals who often make hundreds of millions of dollars a year, to pay taxes at lower rates than average Americans.

These managers currently pay taxes on a substantial portion of their personal income at the 15 percent capital gains rate, not the 35 percent rate that would apply if their earnings were treated as ordinary income. Private investment managers earn an annual administrative fee (usually 2 percent) and carried interest on profits (usually 20 percent), often called a “carry.” The tax code treats the carry portion of pay as capital gains, even though the investment manager is providing a professional service.

A recent Economic Policy Institute paper estimates that this loophole costs the federal treasury about \$12.6 billion a year. This lost revenue, EPI notes, would be enough to fully fund a five-year, \$35 billion expansion of SCHIP, the public health insurance program for America’s low-income children.⁴¹

Cap Tax-free ‘Deferred’ Executive Pay

Most major corporations in the United States today — 85 percent of the companies in the S&P 500 — have created special “deferred pay” accounts for their top executives. Dollars in these accounts earn guaranteed interest, compounding on a tax-free basis, until the executives retire. Last year, according to an analysis by Equilar, a compensation analytics firm based in California, the median major company CEO deferred pay account held \$3.7 million.⁴²

But this median understates the vast sums that some top executives have accumulated. The chief executive at retail giant Target, Robert Ulrich, held \$133.5 million in his deferred pay account at year’s end, all of this over and beyond the dollars in Ulrich’s regular pension and 401(k).⁴³

Standard 401(k) plans, the only tax-deferral tool available to rank-and-file corporate employees, carry strict deferral limits. Workers under age 50 can this year defer from their taxes no more than \$15,500 in 401(k) contributions. Corporate executive deferred pay plans allow unlimited deferrals.

Senate Finance Committee chairman Max Baucus (D-Montana) and the panel’s ranking minority member, Senator Charles Grassley (R-Iowa), earlier this year pushed all the way to a House-Senate conference committee legislation that would have limited annual executive pay deferrals to \$1 million. The proposal, attacked fiercely by corporate interests, did not survive the conference committee deliberations. But Senator Baucus has pledged to revisit the initiative.

Eliminate the Tax Reporting Loophole on CEO Stock Options

Corporations are currently allowed to report one set of executive stock option compensation figures to investors on their financial statements and a completely different set of figures to the Internal Revenue Service (IRS) on their tax returns.

Corporations deduct the value of executive stock options, greatly reducing their taxes. At the same time, they often report a significantly lower stock option expense to their shareholders. The IRS examined corporate tax returns filed between December 2004 and June 2005 and identified a \$43 billion discrepancy between deductions claimed to the IRS and option expenses reported to shareholders.

The U.S. Senate Permanent Subcommittee on Investigations examined the stock option tax deductions claimed by nine companies over five years. The deductions exceeded their reported stock option expenses by a total of more than \$1 billion, or 575 percent. For example, of the 12 million stock options the Occidental Petroleum CEO exercised during the five-year period, the company claimed a \$353 million tax deduction — 12 times as much as the book expense that, under current accounting rules, would have totaled just \$29 million.⁴⁴

This creative bookkeeping is not currently illegal. Senator Carl Levin, chairman of the U.S. Senate Permanent Subcommittee on Investigations, feels these companies “are benefiting from an outdated and overly generous stock option tax rule that produces tax deductions that often far exceed the companies’ reported expenses.”⁴⁵ Sen. Levin will be introducing legislation in September 2007 to eliminate this reporting loophole.

Link Government Procurement to Executive Pay

Some of the most excessive executive pay packages over recent years have gone to CEOs whose companies take in much of their revenue from government contracts. Most of these contracts involve the defense industry.

Federal procurement law already limits the amount of pay that a company with a government contract can bill the government for executive compensation.⁴⁶ But this “cap” only applies to direct federal dollars. Corporations whose profits or share prices soar after receiving a federal contract remain free to pay their top executives whatever company boards please.

A simple change could end these executive windfalls. The federal government could deny procurement contracts — or economic development subsidies or tax breaks — to all firms that pay their top executives over 25, 50, or even 100 times what their lowest-paid workers receive.

The federal government currently denies contracts to companies that increase, through discriminatory employment practices, racial or gender inequality in the United States. The same principle could be invoked to deny contracts to companies that, through excessive executive compensation, increase the nation’s economic inequality.

Some of the most excessive executive pay packages over recent years have gone to CEOs whose companies take in much of their revenue from government contracts.

Steeply graduated tax rates, in place for most of the mid 20th century, sent a powerful cultural message that compensation beyond a certain lofty level serves no useful societal purpose.

Increase the Top Marginal Tax Rate on High Incomes

In 2006, not one of the compensation dollars collected by the business leaders discussed in this report faced a federal income tax rate higher than 35 percent.

Back in the 1950s, by contrast, earned income over \$400,000 — the equivalent of less than \$3 million today — faced a top marginal tax rate of 91 percent.

These steeply graduated tax rates, in place for most of the mid 20th century, served to actively discourage excessive compensation. They sent a powerful cultural message that compensation beyond a certain lofty level serves no useful societal purpose.

Our contemporary CEO pay explosion began in the early 1980s, shortly after the Reagan administration sped through Congress legislation that dropped the top marginal tax rate from 70 percent, its level since 1964, down to 50 percent. The top rate has since dropped even lower. These lower rates may not have “caused” the executive pay cascade. But they opened the floodgates.

Any move to restore mid-20th century top marginal tax rates would raise substantial revenue for investments in education and other social programs that could significantly broaden economic opportunity. If the federal income tax rate on all annual income above \$10 million were raised to 70 percent — and the tax rate on all income between \$5 million and \$10 million were raised to 50 percent — federal revenues in 2008 would increase by a stunning \$105 billion.⁴⁷

Endnotes

- ¹ The survey, released June 11, 2007, included Fortune 500 companies whose fiscal years ended after Dec. 15, 2006 and that reported by June 1, 2007 under the new SEC disclosure rules. The compensation figure includes salary, bonuses, perks, above-market interest on deferred compensation and the value of stock and option awards. Stock and option awards were measured at their fair value on the day of the grant.
- ² *Forbes*, May 21, 2007. The survey included hedge and equity fund principals and traders, investment bankers and activist investors. Compensation includes earnings from dividends, management fees, and profits from investments in their own funds. It excluded earnings from selling part of their business.
- ³ Statement of Steven N. Kaplan, Neubauer Family Professor of Entrepreneurship and Finance, University of Chicago, before the House Financial Services Committee, March 8, 2007.
- ⁴ Calculated by the authors. Figure for 2006 (\$10,767,290) based on Associated Press survey of 386 Fortune 500 firms. Average CEO pay for 1996 (\$5,787,169) based on data in the April 10, 1997 *Wall Street Journal* survey of 350 large U.S. firms. To be as consistent as possible with the AP survey, the authors used data in the *Wall Street Journal* survey to recalculate total compensation to include options grants, rather than options gains.
- ⁵ Under the new legislation, the federal minimum wage rose from \$5.15 to \$5.85 on July 24, 2007; a year later it increases to \$6.55 and in July 2009 it rises to \$7.25.
- ⁶ Based on data in the April 9, 2007 annual *Wall Street Journal* compensation survey. Of 350 large U.S. corporations surveyed, 231 had filed under new disclosure rules.
- ⁷ Congressional Research Service, "Retirement Savings and Household Wealth: Trends from 2001 to 2004," May 22, 2006. The survey included retirement accounts of all types, whether IRAs, Keogh accounts for the self-employed, or employment based plans.
- ⁸ Jeanne Sahadi, "CEOs: Riding off into the (well-funded) sunset," CNNMoney.com, June 11, 2007.
- ⁹ Congressional Research Service, "Retirement Savings and Household Wealth: Trends from 2001 to 2004," May 22, 2006.
- ¹⁰ "Pensions flourish for CEOs, fade for workers," Reuters, June 11, 2007.
- ¹¹ Betsy Stark, "Are Traditional Pension Plans Doomed?" ABC News, January 8, 2006.
- ¹² Ellen Simon, "CEO Perks: The Free Stuff Keeps Coming," *International Business Times*, June 11, 2007.
- ¹³ Ryland SEC Filing. See http://www.sec.gov/Archives/edgar/data/85974/000110465907020268/a07-6273_1def14a.htm.
- ¹⁴ Craig Harris and Andrea James, "Top Execs Rake in the Perks," *Seattle Post-Intelligencer*, February 26, 2007.
- ¹⁵ Starwood Hotels SEC filing. See <http://sec.gov/Archives/edgar/data/316206/000095015307000879/p73690dedef14a.htm#418>.
- ¹⁶ Sam Black, "3M's McNerney Headed to Boeing," *Minneapolis-St. Paul Business Journal*, June 30, 2005. See <http://www.bizjournals.com/twincities/stories/2005/06/27/daily34.html>.
- ¹⁷ Ellen Simon, "CEO Perks: The Free Stuff Keeps Coming," *International Business Times*, June 11, 2007. See <http://www.ibtimes.com/articles/20070611/ceo-pay-perquisites.htm>.
- ¹⁸ *Forbes*, May 21, 2007. See details in Appendix 1.
- ¹⁹ Philip Mattera, "Private Inequity," Corporate Research E-Letter No. 64, March-April 2007. See <http://www.corp-research.org/archives/mar-apr07.htm>.
- ²⁰ International Trade Union Confederation, "Where the house always wins: Private Equity, Hedge Funds and the new Casino Capitalism," June 2007.
- ²¹ International Trade Union Confederation, "Where the house always wins: Private Equity, Hedge Funds and the new Casino Capitalism," June 2007.
- ²² "America's Most Generous Donors," *Chronicle of Philanthropy*, Feb. 22, 2007.
- ²³ Linda Sandler, "Hedge-Fund Manager Cohen Buys Warhol Marilyn Picture," Bloomberg, May 25, 2007.
- ²⁴ Jenny Anderson, "Executive at Stock Unit Said to Leave Hedge Fund," *New York Times*, Nov. 22, 2006.
- ²⁵ Calculated by the authors based on Associate Press survey released June 11, 2007. See details in Appendix 2.
- ²⁶ Based on the *Chronicle of Philanthropy*, 2006 Executive Compensation Survey, published in September 2006. Included in the calculation are individuals who are the heads of their organizations (i.e., professors, coaches, and doctors who were not the heads of their institutions were excluded). See details in Appendix 3.
- ²⁷ UPenn figures from <http://www.upenn.edu/about/facts.php>. Fortune magazine's 2006 Fortune 500 lists XTO's revenues at \$4.58 billion.
- ²⁸ These figures represent base salaries. Bonus information is not publicly available. See details in Appendix 4.
- ²⁹ Defense Finance and Accounting Service. See details in Appendix 5.
- ³⁰ Jim Abrams, "In Congress, rich keep getting richer," Associated Press, June 15, 2007.
- ³¹ Public Citizen, "Congressional Revolving Doors: The Journey from Congress to K Street," July 27, 2005.

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- ³² Calculated by the authors based on data in the Fortune 1000 list. See http://money.cnn.com/magazines/fortune/fortune500/2007/full_list/index.html.
- ³³ “Marx or Markets: German Politicians Debate the Dangers of Capitalism,” Spiegel online, May 5, 2005. See: <http://www.spiegel.de/international/0,1518,354733,00.html>.
- ³⁴ Edward Taylor, “CEO leads Swiss backlash over executive pay,” *Wall Street Journal*, May 29, 2007.
- ³⁵ Peggy Hollinger, “Sarkozy vows to ban big pay-offs for failing bosses,” *Financial Times*, April 12, 2007, and Edward Taylor, “CEO leads Swiss backlash over executive pay,” *Wall Street Journal*, May 29, 2007.
- ³⁶ Ivar Simensen, “German investors look to curb pay-offs,” *Financial Times*, June 25, 2007.
- ³⁷ Stephen Davis, “Does ‘Say On Pay’ Work? Lessons on Making CEO Compensation Accountable,” Policy Briefing No. 1, Millstein Center for Corporate Governance and Performance, Yale School of Management, 2007.
- ³⁸ “Poll Finds Strong Populist Mood in Europe and to a Lesser Extent in the USA,” The Harris Poll #75, July 25, 2007. See http://www.harrisinteractive.com/harris_poll/index.asp?PID=791.
- ³⁹ Methodology: \$10,712 (annual pay for full-time minimum wage workers) X 25 = \$267,800 (amount above which corporations could not claim a deduction under the proposed law). \$10,767,290 (average CEO pay at the 386 Fortune 500 companies in the AP survey) - \$267,800 (amount above which corporations could not claim a deduction under the proposed law) = \$10,499,490 (unallowable corporate deduction) X 35 percent (maximum corporate tax rate) = \$3,674,821.50 (taxpayer savings per executive) X 386 companies = \$1,418,481,099 in total taxpayer savings.
- ⁴⁰ Based on the mean annual wage for elementary school teachers, except special education, of \$48,700 calculated by the Bureau of Labor Statistics, Occupational Employment and Wage Estimates, May 2006, National Cross-Industry Estimates. See http://www.bls.gov/oes/oes_dl.htm.
- ⁴¹ Randall Dodd, “Tax breaks for billionaires: Loophole for hedge fund managers costs billions in tax revenue,” Economic Policy Institute Policy Memorandum #120, July 24, 2007.
- ⁴² Jennifer Bjorhus, “Proxies shed light on CEO stashes,” *St. Paul Pioneer Press*, May 18, 2007.
- ⁴³ Jennifer Bjorhus, “Proxies shed light on CEO stashes,” *St. Paul Pioneer Press*, May 18, 2007.
- ⁴⁴ U.S. Senate Permanent Subcommittee on Investigations, Exhibit #2, “Executive Stock Option Compensation – Book versus Tax Return Differential For Exercised Stock Options,” June 2007.
- ⁴⁵ Press Release, U.S. Senate Permanent Subcommittee on Investigations, “Permanent Subcommittee on Investigations Holds Hearing on Executive Stock Options,” June 4, 2007.
- ⁴⁶ Section 808 of the FY 1998 National Defense Authorization Act. This sum, set annually, has never neared as much as \$1 million, or less than 10 percent the current average compensation for major corporate chief executives.
- ⁴⁷ Institute on Taxation and Economic Policy Tax Model, May 2007 (preliminary).

Appendix I: Top 20 Highest-Earning Private Equity and Hedge Fund Managers

	Executive	Company	2006 compensation
1	James Simons	Renaissance Technologies	\$1,500,000,000
2	Steven Cohen	SAC Capital	\$1,200,000,000
3	Kenneth Griffin	Citadel Investment Group	\$1,200,000,000
4	T Boone Pickens	BP Capital	\$1,100,000,000
5	George Soros	Soros Fund Management	\$950,000,000
6	Stephen Schwarzman	Blackstone Group	\$940,000,000
7	Edward Lampert	ESL Investments	\$940,000,000
8	John Arnold	Centaurus Energy	\$760,000,000
9	Bruce Kovner	Caxton Associates	\$590,000,000
10	Henry Kravis	Kohlberg Kravis Roberts & Co.	\$450,000,000
11	George Roberts	Kohlberg Kravis Roberts & Co.	\$450,000,000
12	David Shaw	DE Shaw & Co.	\$430,000,000
13	Paul Tudor Jones II	Tudor Investment	\$430,000,000
14	Carl Icahn	Icahn Partners	\$350,000,000
15	Stephen Feinberg	Cerberus Capital	\$330,000,000
16	Wesley Edens	Fortress Investment Group	\$330,000,000
17	Michael Novogratz	Fortress Investment Group	\$320,000,000
18	Peter Briger Jr.	Fortress Investment Group	\$320,000,000
19	Daniel Och	Och-Ziff Capital Management	\$300,000,000
20	David Rubenstein	Carlyle Group	\$260,000,000
		Average:	\$657,500,000

Source: *Forbes Magazine*, May 21, 2007.

Appendix 2: Top 20 Highest-Paid CEOs of Publicly-Held U.S. Companies

	Company	CEO	Salary	Bonus and Other	Stock & Other Options	2006 Total Comp.
1	Yahoo	Terry Semel	\$250,001	\$125	\$71,410,090	\$71,660,216
2	XTO Energy	Bob Simpson	\$1,208,334	\$31,229,525	\$27,052,065	\$59,489,924
3	Occidental Petroleum	Ray Irani	\$1,300,000	\$5,958,639	\$45,563,945	\$52,822,584
4	Merrill Lynch	E. Stanley O'Neal	\$700,000	\$18,875,298	\$26,800,049	\$46,375,347
5	Danaher	H. Lawrence Culp, Jr.	\$1,100,000	\$3,949,746	\$41,165,925	\$46,215,671
6	Countrywide Financial	Angelo Mozilo	\$2,866,667	\$21,115,639	\$19,012,000	\$42,994,306
7	Ford	Alan Mulally	\$666,667	\$18,834,433	\$19,627,000	\$39,128,100
8	Apollo Group	Todd Nelson	\$281,250	\$32,345,192	\$0	\$32,626,442
9	AT&T	Edward Whitacre	\$2,100,000	\$7,512,964	\$22,152,797	\$31,765,761
10	Altria Group	Louis Camilleri	\$1,750,000	\$19,909,987	\$10,017,675	\$31,677,662
11	Aetna	Ronald Williams	\$1,073,077	\$7,803,155	\$21,983,853	\$30,860,085
12	Nabors Industries	Eugene Isenberg	\$825,000	\$22,122,620	\$6,595,000	\$29,542,620
13	Comcast	Brian Roberts	\$2,501,000	\$14,734,210	\$10,623,690	\$27,858,900
14	JPMorgan Chase	James Dimon	\$1,000,000	\$13,487,858	\$13,000,000	\$27,487,858
15	Duke Energy	James Rogers	\$0	\$322,821	\$27,162,928	\$27,485,749
16	Wells Fargo	Richard Kovacevich	\$995,000	\$9,043,521	\$16,826,149	\$26,864,670
17	Terex	Ronald DeFeo	\$875,000	\$8,817,155	\$17,131,971	\$26,824,126
18	American Int'l Group	Martin Sullivan	\$1,000,000	\$16,667,088	\$9,018,512	\$26,685,600
19	Citigroup	Charles Prince	\$1,000,000	\$13,458,338	\$10,413,273	\$24,871,611
20	Viacom	Philippe Dauman	\$653,846	\$2,059,744	\$22,087,941	\$24,801,531
					Average:	\$36,401,938

Source: Associated Press survey, released June 11, 2007, which included 386 Fortune 500 companies whose fiscal years ended after Dec. 15, 2006 and that reported by June 1, 2007 under the new SEC disclosure rules. The compensation figure includes salary, bonuses, perks, above-market interest on deferred compensation and the value of stock and option awards. Stock and option awards were measured at their fair value on the day of the grant.

Appendix 3: Top 20 Highest-Paid Leaders of U.S. Non-Profit Organizations

	Leader	Organization	2005 compensation
1	Harold Varmus	Memorial Sloan-Kettering Cancer Center	\$2,491,450
2	James J. Mongan	Partners HealthCare System	\$1,518,113
3	Peter Traber	Baylor College of Medicine	\$1,237,200
4	Andrew K. Golden	Princeton University Investment Co.	\$1,140,324
5	Michael Kaiser	JFK Center for the Performing Arts	\$1,029,691
6	Gordon Gee	Vanderbilt University	\$905,296
7	Deborah Borda	Los Angeles Philharmonic	\$894,390
8	Glenn D. Lowry	Museum of Modern Art	\$875,301
9	Walter W. Noce	Children's Hospital Los Angeles Foundation	\$875,117
10	Jeffrey S. Lehman	Cornell University	\$855,468
11	Richard A. Lerner	Scripps Research Institute	\$844,020
12	Joseph Volpe	Metropolitan Opera Association	\$836,000
13	Aram C. Chobanian	Boston University	\$808,886
14	John E. Sexton	New York University	\$765,559
15	Michael A. Friedman	City of Hope	\$761,311
16	Denis H. Cortese	Mayo Clinic	\$745,384
17	James M. Anderson	Children's Hospital Medical Center (Cincinnati)	\$691,748
18	Gary E. Knell	Sesame Workshop	\$686,035
19	Steven B. Sample	University of Southern California	\$677,676
20	Amy Gutmann	University of Pennsylvania	\$675,000
		Average:	\$965,698

Source: *Chronicle of Philanthropy*, September 28, 2006. Table includes only individuals who are the heads of their organizations, excluding professors, coaches, and doctors who were not the heads of their institutions.

Appendix 4: Top 20 Highest-Paid Federal Executive Branch Leaders

	Leader	2006 Base Salary
1	President	\$400,000
2	Vice President	\$208,575
3-20	Cabinet Secretaries and others at Level I of Executive Pay Grade	186,600
	Average:	\$198,369

Sources: President: Ben Feller, "Bush aims at executive salaries in speech Wednesday," Associated Press, January 31, 2007; Vice President: White House press release, April 13, 2007; Cabinet Secretaries and others: U.S. Office of Personnel Management.

Appendix 5: Top 20 Highest-Paid Military Leaders

	Leader	Position	2006 Basic Pay
1	Peter Pace	Chairman, Joint Chiefs of Staff	\$187,390
2	Edmund P. Giambastiani, Jr.	Vice Chair, Joint Chiefs	\$187,390
3	Peter J. Schoomaker	Chief of Staff, Army	\$187,390
4	Michael Mullen	Chief of Naval Operations	\$187,390
5	T. Michael Moseley	Chief of Staff, Air Force	\$187,390
6	Michael W. Hagee	Commandant, Marine Corps	\$187,390
7	John Abizaid	Central Command	\$187,390
8	James L. Jones	European Command	\$187,390
9	Lance L. Smith	Joint Forces Command	\$187,390
10	William J. Fallon	Pacific Command	\$187,390
11	Timothy J. Keating	Northern Command	\$187,390
12	John Craddock	Southern Command	\$187,390
13	Bryan D. Brown	Special Operations Command	\$187,390
14	James E. Cartwright	Strategic Command	\$187,390
15	Norton A. Schwartz	Transportation Command	\$187,390
16-20	Generals and Admirals at O-10 pay grade		\$152,000
	Average:		\$178,542

Source: Defense Finance and Accounting Service, "US Military Basic Pay Grades, Effective January 1, 2006," <http://www.dfas.mil/militarypay/newinformation/WebPayTableVersion2006updated.pdf>.

Appendix 6: Top 20 Highest-Paid Members of the U.S. Congress

	Position	2006 Compensation
1	Senate Majority Leader	\$212,100
2	House Speaker	\$212,100
3	Senate Minority Leader	\$183,500
4	House Minority Leader	\$183,500
5-20	Rank and File members	\$165,200
	Average:	\$171,720

Source: Jim Abrams, "In Congress, rich keep getting richer," Associated Press, June 15, 2007.

Appendix 7: Top 20 Highest-Paid Executives of European Companies

	Company	Country	Name	Total 2006 Compensation
1	Renault	France	Carlos Ghosn	\$45,500,000
2	L'Oréal	France	Jean-Paul Agon	\$19,300,000
3	Unicredit Group	Italy	Alessandro Profumo	\$18,100,000
4	Vodafone	Great Britain	Arun Sarin	\$15,200,000
5	Assicurazioni Generali	Italy	Antoine Bernheim	\$14,200,000
6	Deutsche Bank	Germany	Josef Ackermann	\$12,400,000
7	AXA	France	Henri de Castries	\$12,100,000
8	Total	France	Thierry Desmarest	\$10,800,000
9	Société Générale	France	Daniel Bouton	\$10,700,000
10	Banco Santander	Spain	Alfredo Sáenz	\$10,600,000
11	UBS	Switzerland	Marcel Ospel	\$10,500,000
12	Vinci	France	Xavier Huillard	\$9,100,000
13	Fiat	Italy	Sergio Marchionne	\$8,700,000
14	Air Liquide	France	Benoît Potier	\$8,000,000
15	Aegon	Netherlands	Donald Shepard	\$8,000,000
16	Royal Bank of Scotland	Great Britain	Frederick Goodwin	\$7,800,000
17	Bouygues	France	Martin Bouygues	\$7,800,000
18	Group Danone	France	Franck Riboud	\$7,300,000
19	Roche Group	Switzerland	Franz Humer	\$6,900,000
20	Alstom	France	Patrick Kron	\$6,700,000
			Average:	\$12,485,000

Source: Compiled by Board-Ex, a British research firm, and published by *Fortune International*, August 6, 2007. Total direct compensation includes salaries, bonuses, options, and other perks reported by companies on last year's FORTUNE Global 500 list.

Appendix 8: Understanding CEO Compensation and Our Numbers

How we calculate CEO pay

Our calculations are based on the formula used by the Associated Press in its June 11, 2007 survey of 386 Fortune 500 companies whose fiscal years ended after December 15, 2006 and that reported by June 1, 2007 under the new SEC disclosure rules. The total compensation figure includes:

Salary: The payment received just for showing up to work. Typically, a small portion of a CEO's total pay package, the salary very rarely declines during down years.

Bonus: An annually determined cash payment for signing or retention or for an ad hoc award.

Non-Equity Incentive Plan Compensation: Performance-based bonuses.

Perks: Reported in the proxies under "All other Compensation," perquisites often include private jet travel, home security alarms, financial advice, and other personal non-cash rewards.

Above-Market Earnings on Deferred Compensation: A return the company has locked itself into giving an executive on compensation already set aside for the executive in special tax-deferred accounts.

Grant Date Value of Stock and Options Awards: The theoretical worth (in current dollars) of restricted stock and stock options granted in the fiscal year covered by the proxy. Stock options represent the right to purchase a certain number of shares of company stock at a set price (the strike price) after waiting a set interval of years. Stock options become valuable only if stock prices rise.

This report also often includes, separate from total compensation, information on individual CEO gains from exercising options. These gains represent the actual money CEOs have collected through the stock options they have exercised in the fiscal year. A stock option gain equals the difference between the market price of the shares CEOs purchase when they exercise options and the option strike price.

How we calculate CEO-worker pay ratios

As explained above, our figure for average CEO pay is based on an Associated Press survey of 386 Fortune 500 companies. Our figure for worker pay is based on U.S. Department of Labor, Bureau of Labor Statistics, Employment, Hours, and Earnings from the Current Employment Statistics Survey. Average hourly earnings of production workers (\$16.76) x average weekly hours of production workers (33.9 hours) x 52 weeks = \$29,544.

These statistics cover all private sector production workers, which results in a lower figure for average worker pay than in other ratios based on compensation for only full-time workers. We prefer to include part-time workers in our figures because these workers make up more than 20 percent of the U.S. workforce. To capture the reality of working life in America, analyses need to include part-timers. Other CEO-worker ratios also base worker pay on the total cost of compensation to employers, which includes health care, contributions to pensions, and other benefits. We do not include these sums in our calculations, since they are not included on the CEO side.

Past reports on CEO pay from the Institute for Policy Studies and United for a Fair Economy

Available online at www.ips-dc.org:

Selfish Interest: How Much Business Roundtable CEOs Stand to Lose from Real Reform of Runaway Executive Pay, April 10, 2007.

Available online at www.ips-dc.org or www.FairEconomy.org:

Executive Excess 2006: Defense and Oil Executives Cash in on Conflict. Examines CEO compensation at top oil companies and defense contractors.

Executive Excess 2005: Defense Contractors Get More Bucks for the Bang. Examines CEO compensation at top defense contractors and reviews and updates some of the most harmful pay trends of the past decade and a half.

Executive Excess 2004: Campaign Contributions, Outsourcing, Unexpensed Stock Options and Rising CEO Pay. CEOs at the companies outsourcing the most workers were paid more than typical CEOs. The report also looks at the link between high CEO pay and campaign contributions.

Executive Excess 2003: CEOs Win, Workers and Taxpayers Lose. CEOs at companies with the largest layoffs, most underfunded pensions and biggest tax breaks were rewarded with bigger paychecks.

More Bucks for the Bang: CEO Pay at Top Defense Contractors. CEOs at the nation's largest military contractors rose 79 percent in 2002, compared to a six percent increase for typical CEOs.

Executive Excess 2002: CEOs Cook the Books, Skewer the Rest of Us. CEOs of companies under investigation for accounting irregularities earned 70 percent more from 1999 to 2001 than the average CEO at large companies.