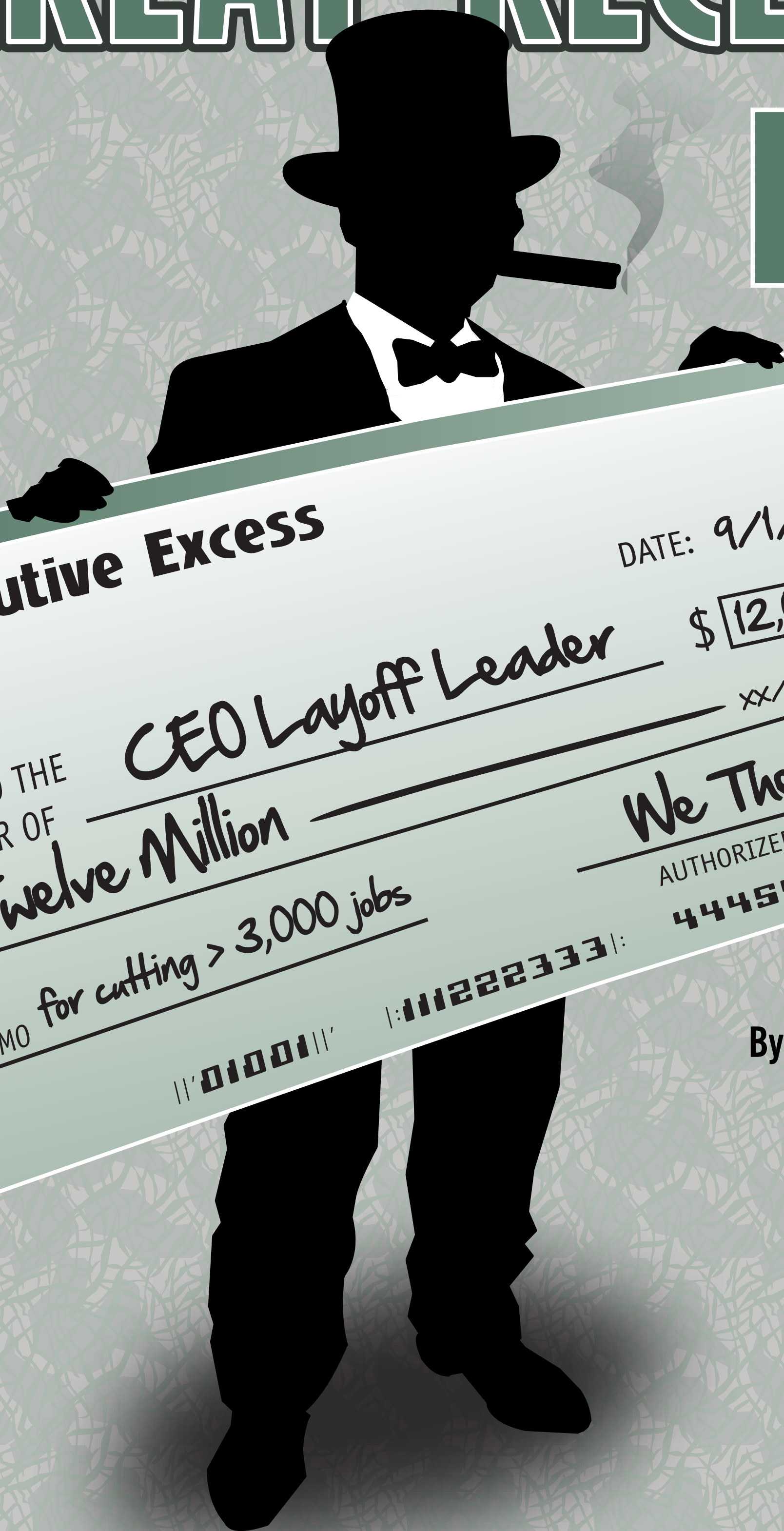
CEO PAY and the GREAT RECESSION



17th Annual Executive Compensation Survey

By Sarah Anderson, Chuck Collins, Sam Pizzigati, and Kevin Shih

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I. Key Findings

CEO Pay in the Great Recession

- Two years into the worst economic crisis since the Great Depression, executive pay — after adjusting for inflation — is still running at double the 1990s CEO pay average, quadruple the 1980s average, and eight times the average executive pay in the mid-20th century.

Layoff Leaders

- **Slashing Jobs Pays:** CEOs of the 50 firms that have laid off the most workers since the onset of the economic crisis took home nearly $12 million on average in 2009, 42 percent more than the CEO pay average at S&P 500 firms as a whole.

- **Profit-Employment Disconnect:** The overwhelming majority of the layoff-leading firms — 72 percent — announced their mass layoffs at a time of positive earnings reports. This reflects a broader trend in Great Recession Corporate America: squeezing workers to boost profits and maintain high CEO pay.

- **Golden Parachuter:** Fred Hassan of Schering-Plough, by far the highest-paid layoff leader, last year pocketed nearly $50 million. Hassan received a $33 million getaway gift when his firm merged with Merck, while 16,000 workers were receiving pink slips. Hassan's 2009 pay could have covered the average cost of these workers' jobless benefits for more than 10 weeks.

- **Drug Recaller:** Ranking second on the layoff leader list, William Weldon of Johnson & Johnson took home $25.6 million, more than three times as much as the S&P 500 CEO average, at a time when his firm was slashing 9,000 jobs and facing charges of drug quality control violations.

- **Tax Dodgers:** Of the 50 layoff leading companies, only two reported paying corporate income tax in 2009 at the 35 percent statutory rate. Hewlett-Packard, under recently fired CEO Mark Hurd, remitted $47 million in federal corporate income tax, a mere 2 percent of the company's reported pretax domestic net income. HP's federal tax bill came to just twice CEO Hurd's $24.2 million pay package.

- **Bailout Barons:** Five of the 50 top layoff leaders owe their good fortune directly to major taxpayer bailouts of the financial sector. Of these, American Express CEO Kenneth Chenault took home the highest 2009 pay, $16.8 million, a sum that included a $5 million cash bonus. American Express has laid off 4,000 employees since receiving $3.39 billion in TARP funding.

- **CEO Pay and Unemployment Insurance:** The $598 million combined compensation of the top 50 CEOs in our layoff leader survey could provide average unemployment benefits to 37,759 workers for an entire year — or nearly a month of benefits for each of the 531,363 workers their companies laid off.

Unfinished Business of Executive Pay Reform

This year's *Executive Excess* includes a comprehensive scorecard that rates the executive pay reforms Congress has recently passed, as well as reforms still pending before Congress and other proposals not yet formally introduced.

- **Passed reforms:** The highest ratings go to two new rules adopted through the financial and health care reform bills, including a requirement that all firms must now report CEO-worker pay ratios and a cap on the tax deductibility of health insurance executive pay.
- **Pending reforms:** The highest marks go to a proposal that would tie tax and procurement benefits to reasonable CEO-worker pay standards and a bill that would cap the tax deductibility of executive pay at all firms.
- **Promising reforms:** Proposals to limit pay for future bailout recipients to no more than the salary of the U.S. president come in first and Dutch action to strictly limit bonus pay second.

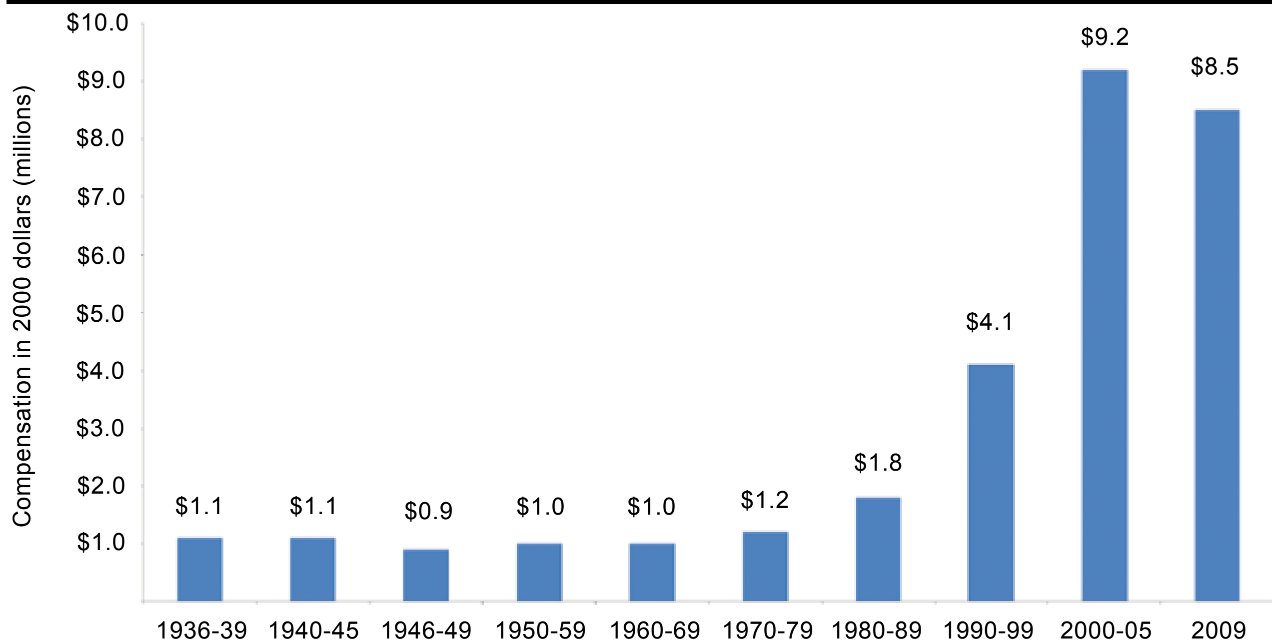
II. Introduction: Overall CEO Pay Trends

America's CEOs had a terribly rough 2009. Or so the national and regional executive pay surveys released so far this year would suggest. "CEOs See Pay Fall Again," blared one headline early this past spring.[1] "CEO pay rankings dominated by large salary cuts," read another in June.[2] "Silicon Valley bosses," summed up still another, "get pay cut."[3]

Month after month, the headlines have pounded home a remarkably consistent message: Corporate executives, here in the Great Recession, are suffering, too.

Corporate executives, in reality, are not suffering at all. Their pay, to be sure, dipped on average in 2009 from 2008 levels, just as their pay in 2008, the first Great Recession year, dipped somewhat from 2007. But executive pay overall remains far above inflation-adjusted levels of years past.

In fact, after adjusting for inflation, CEO pay in 2009 more than doubled the CEO pay average for the decade of the 1990s, more than quadrupled the CEO pay average for the 1980s, and ran approximately eight times the CEO average for all the decades of the mid-20th century.



Sources: For data through 2005, Carola Frydman, MIT Sloan School of Management, and Dirk Jenter, Stanford Graduate School of Business.[4] For 2009 data, IPS calculations.[5]

American workers, by contrast, are taking home less in real weekly wages than they took home in the 1970s.[6] Back in those years, precious few top executives made over 30 times what their workers made. In 2009, we calculate in the 17th annual *Executive Excess*, CEOs of major U.S. corporations averaged 263 times the average compensation of American workers.[7]

CEOs are clearly not hurting. But they are, as we detail in these pages, causing others to needlessly hurt — by cutting jobs to feather their own already comfortable executive nests. In 2009, the CEOs who slashed their payrolls the deepest took home 42 percent more compensation than the year's chief executive pay average for S&P 500 companies.

Most careful analysts of the high-finance meltdown that ushered in the Great Recession have concluded that excessive executive compensation played a prime causal role. Outrageously high rewards gave executives an incentive to behave outrageously, to take the sorts of reckless risks that would eventually endanger our entire economy.

Our nation's leading political players have sought, sometimes with grand fanfare, to confront this reality. Leading politicos have been railing against excessive executive bonuses and inappropriately high incentives ever since the economy nosedived. Various executive pay reforms and regulations have even found their way into the statute book.

The financial industry reform package enacted this July, for instance, codifies into law several long-term goals of the executive pay reform community, most notably a "say on pay" provision that hands shareholders the right to take nonbinding advisory votes on executive compensation.

Will measures like these rein in excessive executive rewards? Will they begin to significantly narrow the corporate pay gap? That appears doubtful. The UK, for instance, has had a "say on pay" provision on the books since 2002, and that provision has not prevented a continuing executive pay spiral. Despite the recession, UK executive compensation sits substantially above pre-"say on pay" levels.

To bring executive pay back down to mid-20th century levels, we need reforms that cut to the quick, that recognize the dangers banks and major corporations create when they dangle oversized rewards for executive "performance." Some reforms that would move us in that direction are now pending in Congress. Others have yet to make their way onto the congressional docket.

We offer, in this *Executive Excess* edition, our first comprehensive analysis of all these reform proposals, those already passed, those still pending, and those promising initiatives not yet on our U.S. political radar screen. Our goal: to rate the reform steps already taken and highlight the steps we still need to take. Thorough executive pay reform, we remain convinced, holds an important key to our healthy economic future.

III. Layoff Leaders

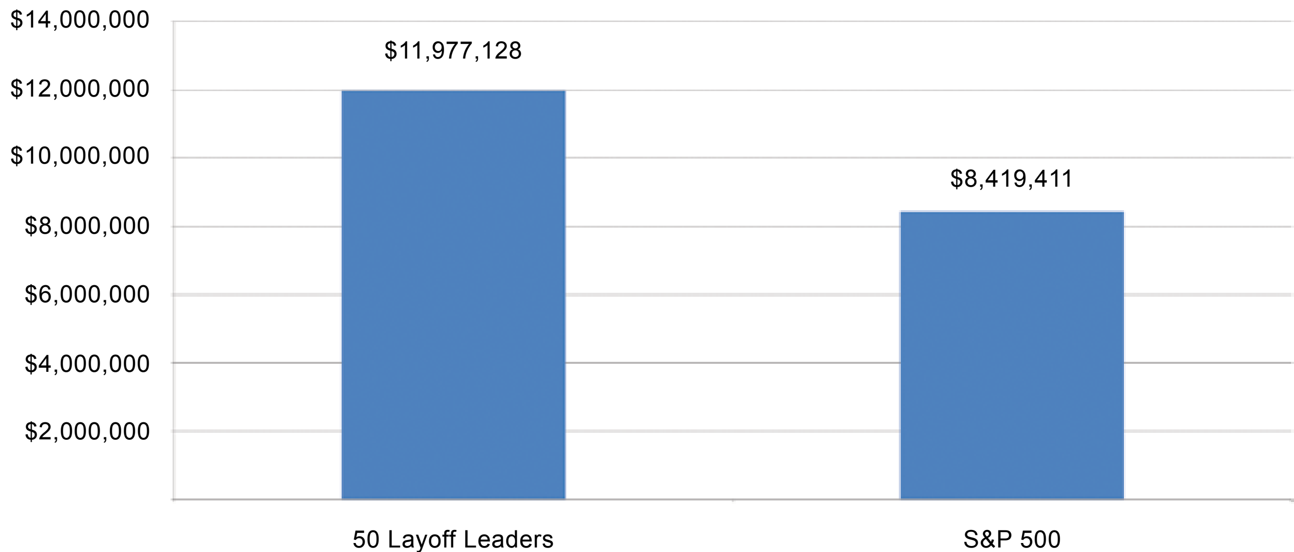
The financial crisis that erupted in 2008 has led to the largest wave of job losses since the Great Depression. According to *Forbes*, the country's top 500 firms announced 697,448 layoffs between November 2008 and April 2010.[8] More than three-quarters of these layoffs — 531,363 to be exact — took place at just 50 firms. Each of these "layoff leaders" has chopped over 3,000 jobs.

These layoffs in no way rate as an inevitable consequence of red corporate ink. Of the 50 top corporate layoff leaders, 72 percent ended last year in the black. Overall, these top 50 layoff firms enjoyed a 44 percent average profit increase in 2009.[9]

These numbers all reflect a broader trend in Great Recession-era Corporate America: the relentless squeezing of worker jobs, pay, and benefits to boost corporate earnings and maintain corporate executive paychecks at their recent bloated levels.

CEOs at the 50 major firms that have laid off the most workers since the onset of the economic crisis took home nearly $12 million each on average in 2009, 42 percent more than the average compensation that went to S&P 500 CEOs.[10] For a complete list of layoff leaders and CEO pay, see the appendix.

Average Total CEO Compensation, 2009



10 Highest-Paid CEO Layoff Leaders			
Company	CEO in 2009	2009 total compensation[11]	Announced layoffs (11/1/08-4/1/10)[12]
1. Schering-Plough	Fred Hassan	$49,653,063	16,000*
2. Johnson & Johnson	William Weldon	$25,569,844	8,900
3. Hewlett-Packard	Mark Hurd	$24,201,448	6,400
4. Walt Disney	Robert Iger	$21,578,471	3,400
5. IBM	Samuel Palmisano	$21,159,289	7,800
6. AT&T	Randall Stephenson	$20,244,312	12,300
7. Wal-Mart Stores	Michael Duke	$19,234,269	13,350
8. Ford	Alan Mulally	$17,916,654	4,700
9. United Technologies	Louis Chenevert	$17,897,666	13,290
10. Verizon	Ivan Seidenberg	$17,485,796	21,308

* Includes all layoffs announced by the new firm resulting from merger between Schering-Plough and Merck.

Top Earner "Performance" Profiles

No. 1: The Golden Parachuter Fred Hassan, Schering-Plough: $49,653,063

The Great Recession's highest-paid CEO layoff leader? Fred Hassan of Schering-Plough gets this dishonor, thanks to the $33 million golden parachute he received after his firm merged into pharmaceutical giant Merck in late 2009. The merger deal brought Hassan's total compensation for the year to nearly $50 million. The 16,000 workers facing layoffs at the newly merged firm Hassan helped create are most unlikely to receive anything close to such a generous sendoff.

The Schering-Plough/Merck layoffs — like so many others since the Great Recession began — hit at a time of positive corporate earnings reports. The merged firm, under the name Merck, took in $12.9 billion in profits in 2009, 33 percent more than the combined earnings of the two merger partners in 2008.[13]

Hassan has taken his lucrative leave from the new and bigger Merck under a dark cloud of corporate misbehavior. Schering-Plough, investigators believe, delayed releasing trial results on the firm's cholesterol drug, Vytorin. Amid a fierce national debate over health care costs, the company postponed, for two years, the news that Vytorin had proven no more effective at limiting plaque buildup in the carotid artery than a much cheaper generic.

With Hassan still in charge, Schering-Plough agreed to settle a consumer class action lawsuit over the reporting delay for $41.5 million.[14] An investor suit, which reportedly includes more detailed accusations of

what Schering-Plough executives knew about the trial results and when they knew it, remains ongoing. This past June, a federal judge denied a company request to dismiss the case.[15]

This past March, Hassan became the CEO of the eye care firm Bausch & Lomb, a new corporate home where he won't have to worry about his pay making any headlines. As a privately held company, Bausch & Lomb is not required to report executive compensation information.

No. 2: The Drug Recaller
William Weldon, Johnson & Johnson: $25,569,844

Ranking second on the Great Recession's top-paid layoff leader list: William Weldon of Johnson & Johnson. Weldon scored a $25.6 million windfall in 2009, up from a sizeable $23 million in 2008. He took home more than three times as much as the S&P 500 CEO average, at a time when his firm was facing serious charges of violating quality control standards at its drug manufacturing plants.

Over the past year, Johnson & Johnson has recalled over 100 million bottles of Tylenol, Motrin, Benadryl, Zyrtec, and assorted other over-the-counter medicines. The Food and Drug Administration has cited three Johnson & Johnson plants for serious manufacturing defects and is reportedly also considering criminal penalties against the firm.[16]

According to a *Washington Post* report, an FDA inspection of a Johnson & Johnson plant in Lancaster, Pennsylvania found quality control problems, chaotic recordkeeping, and a failure to investigate consumer complaints about ineffective medications and packages that mixed pills from different products.[17] Rep. Edolphus Towns (D-NY), chair of the House Committee on Oversight and Government Reform, has accused Johnson & Johnson of obstructing a congressional inquiry into these matters.[18]

The current Johnson & Johnson recall fiasco has led the company to temporarily shut down a plant in Fort Washington, Pennsylvania, a move that will add several hundred more layoffs to the nearly 9,000 the firm had already announced earlier this year.

No. 3: The Tax Dodger
Mark Hurd, Hewlett-Packard: $24,201,448

During his five years at the helm of Hewlett-Packard, CEO Mark Hurd followed a slash-and-burn, merge-and-purge business model, a stark departure from the "no-layoff" policy of HP cofounders William Hewlett and David Packard, who built the company from a garage operation into a global giant. Since the onset of the current crisis, Hurd has issued 6,400 pink slips. That was on top of 24,600 job cuts announced in September 2008.

On August 6, 2010, Hurd got the axe himself. The computer giant's board forced him to resign over misconduct involving falsifying financial reports to conceal a personal relationship with a female contractor. But Hurd walked away with a sendoff far more generous than that of any of the thousands of workers who lost their jobs through no fault of their own. Under a severance agreement, Hurd will receive $12.2 million in cash and stock worth about $16 million.[19]

Hewlett-Packard illustrates still another troubling trend that has largely escaped the headlines: the ongoing splurge of massive corporate tax avoidance.

Under current law, U.S. corporations face a 35 percent statutory tax rate on corporate profits. Of the 50 layoff leaders, only two reported paying this statutory rate in 2009 and most paid substantially less, according to an IPS analysis of domestic earnings and federal tax payments in company 10-K reports.[20] Hewlett-Packard, under Hurd, remitted $47 million in federal corporate income tax, a mere 2 percent of the company's reported $2.6 billion in pretax domestic net income.[21]

Citizens for Tax Justice has used forensic accounting methods to demonstrate that corporations often pay an even lower tax rate than they report to the SEC. Overall, as a result of various tax avoidance schemes, U.S. corporate income taxes have plummeted from almost a third of all non-Social Security federal tax revenues in the 1960s to only a sixth of total taxes today.[22]

In some extreme cases, major U.S. corporations are actually paying less in taxes to Uncle Sam than they pay, in compensation, to their CEOs. At Occidental Petroleum, for instance, CEO Ray Irani made $31.4 million last year. That represented almost twice as much as the $16 million the international oil firm paid in federal corporate income tax for all the services the federal government provides.[23]

Hewlett-Packard's federal tax bill came to just twice the amount of CEO Hurd's $24.2 million 2009 pay package. As yet another perk, HP paid a good share of Hurd's own personal income taxes — with a series of "tax gross-ups," payments that offset the taxes that executives would otherwise have to pay on the perks they receive. Hurd last year received $29,028 in gross-ups to cover his use of the company's private jet and other perks. Over the past three years, Hurd's gross-ups have totaled $137,924.[24]

Bailout Barons

Five of the 50 top Great Recession CEO layoff leaders owe their good fortune directly to major taxpayer bailouts after the 2008 Wall Street meltdown. Of these five, American Express CEO Kenneth Chenault took home the highest 2009 pay, $16.8 million, a sum that included a cash bonus of more than $5 million. American Express has laid off 4,000 employees since receiving $3.39 billion of TARP funding in 2008.

The second-highest-paid CEO among the biggest bailed-out firms: James Rohr of PNC Financial, at $14.8 million. PNC pocketed $7.58 billion in bailout money while slashing 5,800 jobs.

The three other bailed-out CEOs actually sit at the bottom of our top-paid 50 layoff-leader list. But this ranking doesn't tell the full bailout pay story.

The firms of these three CEOs, all under intense media scrutiny, couldn't afford the public relations disaster they would have no doubt encountered if they treated their 2009 CEO pay as straight business as usual. These three firms — Citigroup, Bank of America, and JPMorgan Chase — chose instead to shovel massive sums to lower-ranking high-level execs (see chart below).[25]

Highest-Paid Executives at Bailed-Out Layoff Leaders					
Financial firm	Highest-paid executive	Title	2009 total compensation[28]	Announced layoffs (11/1/08-4/1/10)[29]	Bailout aid ($billions)[30]
Citigroup	John Havens	CEO, Clients Group	$12,126,261	52,175	50.00
Bank of America	Thomas Montag	President, Global Banking and Markets	$29,930,431	35,000	45.00
JPMorgan	William Winters	Co-CEO, Investment Bank	$19,637,702	14,000	25.00
PNC Financial	James E. Rohr	CEO	$14,801,880	5,800	7.58
American Express	Ken Chenault	CEO	$16,796,132	4,000	3.39
Total			**$93,292,406**	**110,975**	**130.97**

We see this dynamic clearly at work with Citigroup. CEO Vikram Pandit, the executive who ushered Citi to the brink of collapse, made a gesture towards belt tightening by agreeing to accept only $1 in annual salary, beginning in February 2009, until the firm returns to profitability, a gesture rather easy to make considering the $38.2 million Pandit pulled in the year before.

Elsewhere within Citigroup, excess continued to reign. In 2009, five other executives listed in the firm's proxy statement each took in multi-million stock and option awards. The highest paid among them: John Havens, the chief executive at Citi's Clients Group. He took home $12.1 million in total compensation.

In July, the Obama administration's "pay czar," Kenneth Feinberg, fingered Citigroup as the worst executive pay offender among bailout recipients for doling out $400 million in excess compensation to executives in the five months before bailout pay guidelines went into effect in early 2009.[26]

In December 2009, both Citigroup and Bank of America paid back their TARP funds. According to Public Citizen President Robert Weissman, "They did this pretty much for the sole purpose of escaping Feinberg's control, and it clearly cost them. The bonds they floated had a higher interest rate than the TARP funds."[27]

Telecom Downsizers

Telecom companies appear to be noticeably well-represented on the layoff list. The country's top three telephone service providers — AT&T, Verizon, and Sprint Nextel — have hemorrhaged 43,858 workers since November 2008.[31]

To some extent, these layoffs reflect underlying economic trends. The financial downturn has accelerated the abandoning of traditional landlines by cell-phone users. With joblessness hovering around 10 percent, more and more households are also canceling cable TV and Internet contracts. But these real economic trends do not explain why telecom top executives continue to walk off with far higher paychecks than their peers in other major U.S. industries.

Randall Stephenson at AT&T and Ivan Seidenberg at Verizon both made more than twice the S&P CEO average, with $20.2 million and $17.5 million, respectively. CEO Dan Hesse at Sprint Nextel collected $12.3 million in personal earnings.

Besides axing 21,308 workers, Verizon has been "cost cutting" by tax dodging as well. The company recently finagled a $600 million tax break by exploiting a loophole that allows firms to spin off operations tax-free. The deal involved the sell-off of 4.8 million rural phone lines in 14 states to Frontier Communications. Lawmakers in the House of Representatives, outraged by this maneuver, have voted to repeal the loophole that made it possible, the Reverse Morris Trust.[32]

CEO Pay and Unemployment Insurance

To gain some perspective on the continuing enormity of CEO compensation, we need only com-

pare this executive pay with the unemployment benefits going to the workers who are bearing the brunt of our Great Recession times.

In 2009, average jobless benefits nationwide stood at $305 per week, or $15,860 per year.[33] Benefits do vary dramatically by state, from a maximum $230 weekly in Mississippi to $628 in Massachusetts.[34] Some relatively high-income states pay very low weekly unemployment benefits, just $330 a week, for instance, in New York. Nationally, reports the Joint Economic Committee, weekly benefits average only 74 percent of the poverty threshold for a family of four.[35]

- The $598 million combined compensation of the top 50 CEOs in our layoff leader survey could cover the cost of average unemployment benefits to 37,759 workers for an entire year — or provide nearly a month of insurance for each of the 531,363 workers their companies laid off.
- Johnson & Johnson CEO William Weldon's compensation of $25.5 million could provide all 8,900 workers laid off by Johnson & Johnson, with average unemployment benefits for more than nine weeks.
- Schering-Plough CEO Fred Hassan's compensation of $49.6 million could provide all 16,000 workers laid off by the firm formed when Schering-Plough and Merck recently merged with average unemployment benefits for more than 10 weeks.
- Hewlett-Packard CEO Mark Hurd's compensation of $24.2 million could provide all 6,400 workers laid off by Hewlett-Packard with unemployment insurance for more than three months.

The Long-Term Cost of Mass Layoffs

Corporate America's cavalier approach to job cutting has profound negative consequences, not just on workers who lose their jobs and their families, but also on the corporations that do the cutting. Our contemporary corporate eagerness to shed workers in situations that, in the past, would not have resulted in layoffs significantly undermines the long-run health of corporations and the overall economy.

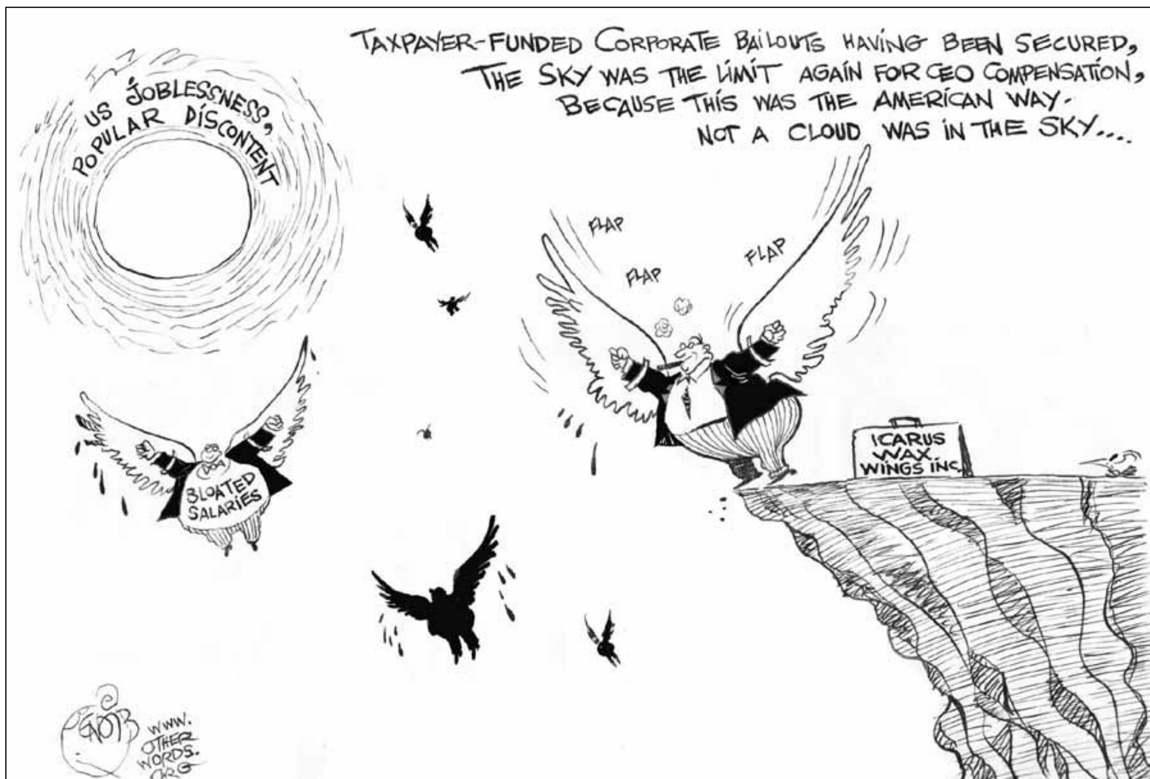
Long-Term Costs for Employers

- **Direct and Indirect Costs:** An American Management Association survey has found that 88 percent of downsizing companies report a decline in morale among remaining employees.[36] Other costs can include expenses related to the cost of rehiring and training employees when business improves, and potential lawsuits or sabotage from aggrieved current or former employees. Layoffs can also result in a loss of institutional memory and knowledge, diminish trust in management, and reduce productivity.
- **Financial performance:** A University of Colorado survey of S&P 500 companies from 1982 to 2000 has found no evidence that downsizing leads to increased returns on assets.[37] In fact, stable employers — companies that have less than 5 percent annual staff turnover — tend to outperform most companies that had major layoffs. Another

study has found that only about one-third of companies that downsize experience an increase in earnings.[38]

Long-Term Costs for Workers and Their Communities

- **Decreased wages:** Based on the experience of past recessions, an average worker with some experience who loses a decent job can expect to suffer a 20 percent reduction in pay for the subsequent 15-20 years.[39]
- **Health costs:** A recent National Bureau of Economic Research working paper reported that in the United States, job displacement led to a 15 to 20 percent increase in death rates during the following 20 years, implying a drop in life expectancy of 1.5 years for employees who lose their jobs at age 40.[40] A major likely cause of this health effect: the loss of employer-based health insurance.
- **Impact on children:** Some studies have shown that when parents lose their jobs, the toll often trickles down to their children, showing up in the form of lower test scores.[41]
- **Community:** Plant shutdowns mean lost tax revenues, at a time when communities also face a greater demand for emergency services. In effect, by cutting jobs cavalierly, corporate top executives are shifting the burden of a weak economy onto the public purse — while they continue to stuff their own pockets.



IV. Executive Pay Reform Scorecard

The 2008 financial meltdown has once again focused public attention — and rage — on our nation's out-of-control and over-the-top executive compensation practices. President Obama, for instance, has lashed out at "lavish bonuses" and blamed executive pay excess for contributing to a "reckless culture and quarter-by-quarter mentality that in turn have wrought havoc in our financial system."[42]

Since the crash, the White House and Congress have advanced a variety of legislative and regulatory pay reforms. The latest appear in the Restoring American Financial Stability Act of 2010, the Dodd-Frank financial regulatory bill President Obama signed into law this past July.

Are these reforms likely to end executive excess — or even appreciably slow this excess down? Are the White House and Congress going down the right track? Or do we need to consider fundamentally different approaches to executive pay reform? These questions seldom get asked. Congressional and White House reform efforts, by and large, have frozen into a seldom-challenged conventional wisdom that may be promising more reform than these efforts can deliver.

To help policy makers and the public better understand the executive pay choices before us, we have prepared a comprehensive "scorecard" that rates both the executive pay reforms that have been enacted into law and those now pending in Congress. We also include in our scorecard other promising proposals that have not yet been introduced as congressional legislation.

This scorecard does not cover temporary pay rules that apply only to recipients of the Troubled Asset Relief Program (TARP), the most visible of the federal bailout programs.

As part of this scorecard, we have also generated a grading system based on a set of five pay principles. These five principles, at root, seek to encourage greater fairness for workers and taxpayers and encourage the 21st century executive leadership we need to build a more stable, sustainable economy.

Executive Pay: Principles for Economic Fairness and Stability

1.Encourage narrower CEO-worker pay gaps

Extreme pay gaps, with top executives earning hundreds of times more than their employees, run counter to basic principles of fairness. They also endanger enterprise effectiveness. Management guru Peter Drucker, echoing the view of financier J.P. Morgan, believed that the ratio of pay between worker and executive can run no higher than 20:1 without damaging company morale and productivity.[43] Researchers have documented that enterprises, particularly in the Information Age, operate more effectively when they

tap into — and reward — the creative contributions of employees at all levels.[44]

2. Eliminate taxpayer subsidies for excessive executive pay

Ordinary taxpayers should not have to foot the bill for excessive executive compensation. And yet a variety of tax and accounting loopholes that encourage excessive pay add up to a cost of more than $20 billion per year in foregone revenue. [45] No meaningful regulations, for instance, currently limit how much companies can deduct from their taxes for the expense of executive compensation. The more firms pay their CEO, the more they can deduct off their federal taxes.

3. Encourage reasonable limits on total compensation

The greater the annual reward an executive may receive, the greater the temptation to make reckless executive decisions that generate short-term earnings at the expense of long-term corporate health. Outsized CEO paychecks have also become a major drain on corporate revenues, amounting, in one recent period, to nearly 10 percent of total corporate earnings.[46] Government can encourage more reasonable compensation levels without having to micromanage pay levels at individual firms.

4. Accountability to shareholders

On paper, the corporate boards that determine executive pay levels must answer to shareholders. In practice, shareholders have had virtually no say on corporate executive pay decisions. Accountability must begin with procedures that force corporate boards to disclose and defend before shareholders the rewards they extend to corporate officials.

5. Accountability to broader stakeholders

Executive pay practices, we have learned from the run-up to the Great Recession, impact far more than shareholders. Effective pay reforms need to encourage management decisions that take into account the interests of all corporate stakeholders, not just shareholders but consumers and employees and the communities where corporations operate.

In the tables below, we grade each reform by assigning a rating for each of these five principles.

Ratings:

1 = Represents a small step toward achieving the principle

2 = Represents substantial progress

3 = Represents major progress

4 = Achieves the principle

Passed / proposals recently enacted through statute or regulation

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Disclosure								
CEO-worker pay ratio	The new financial reform law (Sec. 953) requires all U.S. corporations to compute and report the median annual total compensation of their employees, excluding the CEO, and reveal the ratio between CEO and employee pay.	For the first time, firms will have to reveal how much they value the contributions of all employees, not just top executives. Enterprises operate more effectively when they tap the creativity of all who labor within them. This provision could boost efforts (see Pending) to limit pay excess via tax and procurement policies.	2		1	1	2	6
Pay versus performance	The new financial reform law (Sec. 953) requires all U.S. corporations to disclose the relationship between executive pay and corporate financial performance, including changes in share prices over the previous year.	This disclosure requirement reinforces the excessive fixation on short-term, narrowly defined performance criteria and does little to advance long-term investor interests.				1		1
Employee and director hedging	The new financial reform law (Sec. 955) requires firms to disclose whether or not they have a policy on hedging by employees or directors.	Execs use hedging contracts to bet against their own firm's success, one way top execs can win whatever the cost to their company and other stakeholders. But merely requiring disclosure may not end this practice.				1	1	2
Government contractor pay	New rules stemming from the 2008 Government Funding Transparency Act will soon require government contractors and subcontractors to annually disclose the names and total pay, including bonus and stock options, of their five top-paid officers. The rule applies to firms earning at least 80 percent of their revenue from federal contracts, grants, and loans that have received $25 million in fed funding the previous year.	This new rule expands executive pay reporting requirements that already apply to publicly held companies to privately held firms that rely heavily on federal contracts. This will allow taxpayers to know how much of their money is going into the pockets of contractor executives and could lead to procurement reforms that encourage more reasonable pay (see Pending).		2	1		1	4

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Governance								
Shareholder "Say on Pay"	The new financial reform law (Sec. 951) requires firms to provide shareholders the right to a nonbinding vote on the compensation of executives. It also requires an advisory vote regarding compensation arrangements ("golden parachutes") that are triggered by a merger or acquisition.	This reform has the potential to become a valuable tool for shareholder activist campaigns, particularly if such votes are required on an annual basis. However, there is little evidence to date that "say on pay" has had an overall impact on pay levels in nations where it has already been in practice. In Britain, executive pay has continued to rise despite the "say on pay" restriction in place since 2002.	1		1	2		4
Proxy access	The new financial reform law (Sec. 972) gives the SEC the authority to adopt rules allowing shareholders to place candidates on the ballots for board of directors' elections.	This legislation affirms the SEC authority to adopt a proxy access rule and will help counter lawsuits by business groups to challenge this authority. If the SEC does adopt such a rule, institutional investors will have a greater capacity to challenge incumbents and incumbents may become more attentive to broader perspectives on executive compensation.	1		1	2		4
Compensation committee independence	The new financial reform law (Sec. 952) requires all board compensation committee members to be "independent." Companies must also disclose whether a pay committee has obtained the advice of a pay consultant and whether the consultant's work raises any conflict of interest.	NYSE and NASDAQ already require listed companies to have an "independent" director pay committee majority. "Independent" members cannot be employed by or have a business relationship with the firm. CEOs still have ample power to handpick directors. Once selected, few want to risk losing their coveted slots by questioning excessive executive pay. Case in point: Enron's board members were largely independent, among them the Dean of the Stanford Business School.			1	1		2

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Indepen-dence of compensa-tion consul-tants	The new financial reform law (Sec. 952) directs the SEC to identify criteria for determining the independence of an adviser to the compensation commit-tee, including whether the consultant does other business with the company, owns stock in the company, or has busi-ness or personal relationships with board members, and what percentage of the consultant's business comes from the firm.	Cracking down on consultant conflicts of interest would be a positive step. Currently, these paid advisers have an incentive to produce reports that recom-mend high levels of executive compensation, since if they keep in an executive's good graces, that executive will be more likely to extend the consultant's contracts in areas unrelated to executive pay.			1	2		3
Tax Policy								
Cap on deductibil-ity of health insurance executive pay	Since 1993, all U.S. compa-nies have been subject to a $1 million cap on the tax deduct-ibility of executive pay, but with a giant loophole that exempted "performance-based" pay. The new health reform law eliminates that loophole and will lower the cap to $500,000 starting in 2013. A similar rule for TARP recipients applied only to top executives. This provision covers all firm employees.	This new rule, while apply-ing only to health insurance companies, does set a valuable precedent for reducing taxpayer subsidies for excessive execu-tive pay and provides an incen-tive for lowering overall CEO compensation. This provision could give impetus to propos-als noted below to cap the tax deductibility of executive pay at all U.S. firms.	1	3	1			5
Other								
Clawbacks	The new financial reform law (Sec. 954) requires executives to repay compensation gained as a result of erroneous data in financial statements. Executives must repay "excess" incentive compensation received during the three-year period preceding an accounting restatement.	This important step toward ensuring that executives do not get to keep pay based on performance goals not actually achieved goes beyond the claw-back provisions of the Sarbanes-Oxley law, which only applies to restatements resulting from misconduct. But the rule applies only to top execs, leaving high-bonus traders off the hook.			1	1	2	

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Pay limits for financial holding company executives	The new financial reform law (Sec. 956) directs the Fed to develop standards for bank holding companies and savings and loan companies that prohibit payment to any “executive officer, employee, director, or principal shareholder” of (i) “excessive compensation, fees, or benefits” or (ii) compensation that “could lead to material financial loss to the bank holding company.”	This provision seeks to apply standards comparable to those in §39(c) of the Federal Deposit Insurance Act, but this FDIC precedent allows the Fed considerable leeway. The Fed has shown no capacity to adequately define “excessive compensation.”			1			1
Federal Reserve guidance on incentive compensation	In June 2010, the Fed released final guidance on financial firm incentive pay. Unlike the European Union (see below), the Fed chose not to require firms to impose standard formulas for bonus payouts or to set compliance deadlines. Instead, the Fed offers general principles to encourage longer-term performance and avoid undue risks for the firm or financial system.	Given the vagueness of the guidelines and the confidentiality of the Federal Reserve’s reviews of company compliance, evaluating the impact of this new guidance on actual pay practices will be next to impossible.						?

Pending / proposals currently before Congress								
Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Tax and Procurement Policy								
Ending the preferential capital gains treatment of carried interest	Under current law, hedge and private equity fund managers pay taxes at a 15 percent capital gains rate on the profit share — "carried interest" — they get paid to manage investment funds, rather than the 35 percent rate they would pay under normal tax schedules. In 2007, the House passed a tax reform bill, H.R. 3996, to close the carried interest loophole by defining “carried interest” as ordinary income. The Senate did not take action. In 2010, several attempts to close the loophole have failed.	Closing the carried interest loophole would address the single most extreme example of Wall Street privilege.		3	1			4
Bonus taxes	In January 2010, Rep. Dennis Kucinich (D-OH) introduced the Responsible Banking Act (H.R. 4414), which would impose a 75 percent tax on bonuses to employees of all financial firms for the next five years. Several other bonus tax bills have been introduced that would apply only to firms that have received TARP benefits.	Continued bonus payouts, even by taxpayer-dependent firms such as AIG, have provoked intense public anger. A continuation of the “bonus culture” puts all of us at risk of more reckless behavior. The UK responded to this furor by imposing a one-time tax of 50 percent on any discretionary pay for bankers in 2009 above a certain level (about US$40,000).	2		2		1	5

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Limiting the deductibility of executive compensation	To prevent corporations from deducting excessive executive pay off their taxes, Congress in 1993 set a $1 million cap on the individual executive pay corporations could deduct. But that cap did not apply to "performance-based" pay, a giant loophole that exempted stock options and other pay "incentives" from the $1 million cap. In 2009, Rep. Barbara Lee (D-CA) introduced the Income Equity Act (H.R. 1594) to deny all firms tax deductions on any executive pay that runs over 25 times the pay of a firm's lowest-paid employee or $500,000, whichever is higher.	The Income Equity Act would eliminate a perverse incentive for excessive compensation. Under current rules, the more a firm pays its CEO, the more the firm can deduct from its taxes. Other taxpayers bear the brunt of this loophole, either through increased taxes needed to fill the revenue gaps or through cutbacks in public spending. As noted above, the TARP and the 2010 health care reform bill set important precedents by applying $500,000 deductibility caps on pay for bailout recipients and health insurance firms.	2	3	2			7
Ending the stock option accounting double standard	Current accounting rules value stock options on their grant date. The current tax code values stock options on the day that executives cash them in, often a much higher figure. In 2009, Senators Carl Levin (D-MI) and John McCain (R-AZ) introduced the Ending Excessive Corporate Deductions for Stock Options Act (S. 1491) to "require the corporate tax deduction for stock option compensation to be not greater than the stock option book expense shown on a corporation's financial statement."	Under current rules, companies can lower their tax bill by claiming deductions for options that are much higher than the option value they report in their financial statements. This tax incentive encourages corporate boards to hand executives huge stock option windfalls and costs taxpayers as much as $10 billion annually.[47]	1	2	1			4

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Limiting deferred compensation	Most CEOs at large companies now legally shield unlimited amounts of compensation from taxes through special deferred accounts set up by their employers. By contrast, ordinary taxpayers face strict limits on how much income they can defer from taxes via 401(k) plans. In 2007 the Senate passed a minimum wage bill that would have limited annual executive pay deferrals to $1 million, but the provision was dropped in conference committee.[48]	These special deferred compensation plans cost U.S. taxpayers an estimated $80.6 million per year in lost revenue. Beyond that, they widen the divide between CEOs and ordinary workers, whose pension benefits have declined significantly at most firms.[49]	2	1	1			4
Leveraging federal procurement dollars to discourage excessive executive compensation	Firms that rely heavily on government subsidies, contracts, and other forms of support continue to face no meaningful restraints on pay. Every year, the Office of Management and Budget does establish a maximum benchmark for contractor compensation, currently $693,951. But this benchmark only limits the executive pay a company can directly bill the government for reimbursement. The benchmark in no way curbs windfalls that contracts generate for top executives. In 2009, Rep. Jan Schakowsky (D-Ill.) introduced the Patriot Corporations Act (H.R. 1874) to extend tax breaks and federal contracting preferences to companies that meet benchmarks for good corporate behavior. Among the benchmarks: not compensating any executive at more than 100 times the income of the company's lowest-paid worker.	By law, the U.S. government denies contracts to companies that discriminate, in their employment practices, by race or gender. This reflects clear public policy that our tax dollars should not subsidize racial or gender inequality. In a similar way, this reform would use the power of the public purse to discourage extreme economic inequality.	2	3	2		3	10

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Other progressive taxation proposals	Executive pay can be affected indirectly through tax reforms aimed at ensuring that the ultra-rich pay their fair share, such as: • Setting a new progressive top income tax rate at 50 percent on incomes over $1 million. • Taxing capital gains at ordinary income tax rates for wages. • Lifting the cap on Social Security withholding taxes to include all income.	When the U.S. government taxed high income at much higher rates in the quarter-century after World War II, corporate boards simply did not compensate executives at lush levels. Progressive taxation was a disincentive for excessive compensation that was built into the tax system in the 1950s and 1960s. Some CEOs themselves have argued that policy makers should not alter the compensation system, but just tax incomes at higher levels.[50]	1	3	1			5

Promising / proposals not yet before Congress

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
European Union pay reforms	In July 2010, the European Union adopted new pay rules for financial firms that will go into effect next January. Under the rules, financial executives will receive only 20 to 30 percent of their bonus in upfront cash. The rest will be deferred for up to three years and be paid in a new class of security, called contingent capital, which would decline in value if the bank's financial performance deteriorates. If regulators decide a bank's pay structure encourages excessive risk, they can force the bank to set aside more capital to make up for the risk.	This reform goes further than comparable U.S. regulations to set clear restrictions on financial pay, particularly bonuses. But this reform only addresses the structure of compensation rewards and not their overall size. The EU's three-year deferral, if in place in the United States, would not have prevented some of the biggest pay scandals that led to the Wall Street meltdown. The CEO of Countrywide Financial took in massive rewards for over a decade before his subprime risks crashed the company.			1	3	1	5
Dutch bonus pay limits	As of January 2010, executives at any bank based or doing business in the Netherlands may only pocket "variable" pay that adds up to no more than an executive's annual salary. This "variable" pay encompasses all executive pay incentives, not just bonuses but options and other stock awards.	This reform does not set a dollar limit on pay, but will likely go much further than many other reforms to bring down CEO pay levels by limiting total compensation to no more than twice the amount of executive salary. It will also help counter the "bonus culture" that encourages high-risk investing.	3		3	2	2	10
Strict caps on executive compensation for bailout firms — before the next crisis	In 2009, the Senate approved an amendment to the stimulus bill that would have capped total pay for all employees of all bailout companies at no more than $400,000, the salary of the U.S. President. Such a restriction could be enacted today for application in the event of future bailouts.	This restriction could have an important preventive effect. Given a clear warning about the consequences for their own paychecks, executives might think twice about taking actions that endanger their future — and ours.	3	3	3	3	3	15

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
A CEO pay limit for firms in bankruptcy	The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (Sec. 331) prohibits companies in bankruptcy from giving executives any "retention" bonus or severance pay that runs over ten times the average bonus or severance awarded to regular employees in the previous year. This legislation could be strengthened by closing a loophole that exempts "performance-based pay."	This reform would help end the unjust practice whereby executives, after declaring bankruptcy and eliminating workers' jobs and pensions, then turn around and pocket millions in severance.	2			2	1	5
Corporate board diversity	At least a dozen EU countries require firms above a certain size to include worker representatives on their boards.[51]	Investment portfolio diversity decreases risk and improves overall performance. Corporate board diversity could have the same impact. European executive pay over the recent decades has consistently run at much lower levels than U.S. executive pay.			1	2	3	6
"Say on Pay" with teeth	The former chief economist at the European Bank for Reconstruction and Development, Willem Buiter, has suggested that if shareholders vote down an executive's pay package, the "default remuneration package" that goes to that executive must not "exceed that of the head of government."[52]	This would give shareholders much more power than they received through the new Say on Pay rules in U.S. law, which are purely advisory.	2		2	5		9

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Statutory pay limit ratio	In Israel, the Labor Party's Shelly Yachimovich and Likud's Haim Katz have introduced legislation in the Knesset that would cap Israeli executive pay at 50 times the pay of a company's lowest-paid workers. Sharan Burrow, the new general secretary of the International Trade Union Confederation, the world's most important trade union body, has proposed, as president of the Australian Council of Trade Unions, a cap that would limit executive salaries to 10 times average worker pay. She also called for a special tax on any firms with executives taking home over $1 million in total compensation.[53]	Corporate salary differentials near 10 and 20:1 have been commonplace in Japan and some European nations for many years. A government could step toward mandating such a limit by denying government contracts, tax breaks, or subsidies to any corporations that compensate executives at a set ratio of worker pay.	5		4			9

Appendix

CEO Compensation at the 50 Top Great Recession Layoff Leaders				
	Company	CEO in 2009	2009 Total compensation	Total Announced Layoffs (11/1/08-4/1/10)
1	General Motors	Frederick Henderson*	$5,445,000	75,733
2	Citigroup	Vikram S. Pandit	$128,751	52,175
3	Bank of America	Kenneth D. Lewis	$32,171	35,000
4	Caterpillar	James W. Owens	$6,764,531	27,499
5	Verizon	Ivan G. Seidenberg	$17,485,796	21,308
6	Pfizer	Jeffrey B. Kindler	$13,659,266	19,872
7	Emerson Electric	David Farr	$6,899,987	14,200
8	JPMorgan Chase	James Dimon**	$1,265,708	14,000
9	Alcoa	Klaus Kleinfeld	$11,214,266	13,985
10	Wal-Mart Stores	Michael T. Duke	$19,234,269	13,350
11	United Technologies	Louis Chenevert	$17,897,666	13,290
12	AT&T	Randall Stephenson	$20,244,312	12,300
13	Las Vegas Sands	Sheldon Adelson	$5,575,149	11,500
14	Boeing	W. James McNerney	$13,705,435	11,304
15	Sprint Nextel	Dan Hesse	$12,334,096	10,250
16	Johnson & Johnson	William C. Weldon	$25,569,844	8,900
17	Schering-Plough	Fred Hassan***	$49,653,063	8,000
18	Merck	Richard Clark***	$11,892,903	8,000
19	Home Depot	Francis S. Blake	$9,927,573	8,000
20	IBM	Samuel J. Palmisano	$21,159,289	7,800
21	Dow Chemical	Andrew N. Liveris	$15,676,522	7,500
22	Macy's	Terry Lundgren	$12,848,407	7,000
23	U.S. Steel	John P. Surma	$1,507,042	6,705
24	Starbucks	Howard Schultz	$14,970,792	6,700
25	Hewlett-Packard	Mark V. Hurd	$24,201,448	6,400
26	Textron	Scott C. Donnelly	$8,902,401	6,315
27	Sun Microsystems	Jonathan I. Schwartz	$6,983,421	6,000
28	PNC Financial Services	James E. Rohr	$14,801,880	5,800
29	Microsoft	Steven Ballmer	$1,276,627	5,800

30	Eaton	Alexander M. Cutler	$6,809,616	5,609
31	Eli Lilly & Co.	John C. Lechleiter	$16,374,524	5,500
32	Intel	Paul S. Otellini	$14,407,900	5,000
33	Goodyear	Robert J. Keegan	$14,014,167	5,000
34	Terex	Ronald M. DeFeo	$3,417,736	5,000
35	Ford	Alan Mulally	$17,916,654	4,700
36	Eastman Kodak	Antonio Perez	$10,157,273	4,500
37	El du Pont de Nemours	E. J. Kullman	$8,343,305	4,500
38	American Express	Kenneth I. Chenault	$16,796,132	4,000
39	Hertz Global Holdings	Mark P. Frissora	$9,019,690	4,000
40	Wyndham Worldwide	Stephen Holmes	$6,095,801	4,000
41	Motorola	Gregory Q. Brown	$3,774,885	4,000
42	Bristol-Myers Squibb	James M. Cornelius	$17,002,765	3,813
43	3M	George W. Buckley	$13,992,628	3,700
44	General Electric	Jeffrey R. Immelt	$5,585,322	3,568
45	Walt Disney	Robert A. Iger	$21,578,471	3,400
46	Texas Instruments	Richard K. Templeton	$9,816,091	3,400
47	Danaher	H. Lawrence Cult, Jr.	$11,047,304	3,300
48	Agilent Technologies	William Sullivan	$6,472,033	3,300
49	Avon Products	Andrea Jung	$7,091,871	3,242
50	Omnicom Group	John D. Wren	$7,884,598	3,145
	Average		$11,977,128	10,627
	Median		$11,130,785	6,358
	Total		**$598,856,381**	**531,363**

*Resigned Dec. 1, 2009. **It's worth noting that Jamie Dimon cashed in $6,858,692 in options in 2009 that are not included in the figure for total compensation. ***Merck and Schering-Plough merged on Nov. 3, 2009, under the name Merck. Clark became CEO and Hassan resigned. The total number of the newly merged Merck's announced layoffs is 16,000, divided equally in this table between the two firms.

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