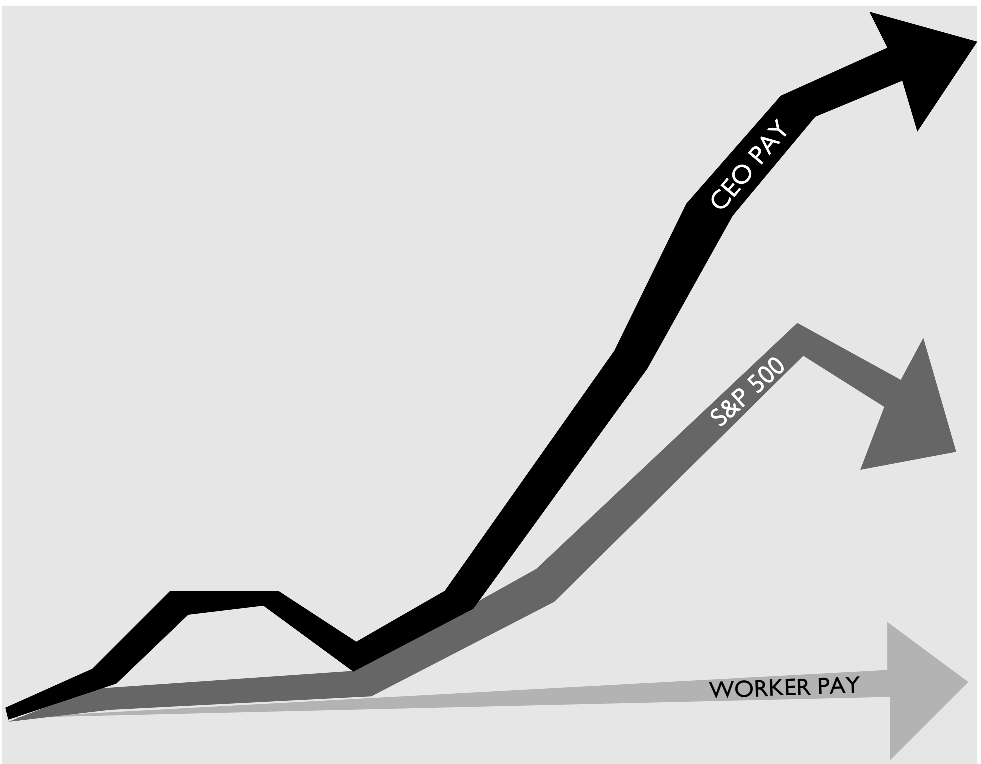
Executive Excess 2001

Layoffs • Tax Rebates • The Gender Gap

Eighth Annual CEO Compensation Survey



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August 28, 2001

IPS

UNITED FOR A FAIR ECONOMY

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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 politicians, journalists, academics and activists with exciting policy ideas that can make real change possible.

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

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UNITED FOR A FAIR ECONOMY

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Key Findings

1. The 1990s: A Decade of Greed

- Executive pay jumped 571 percent between 1990 and 2000 (before adjusting for inflation). CEO pay rose even in 2000, a year in which the S&P 500 suffered a 10 percent loss.
- The explosion in CEO pay over the decade dwarfed the 37 percent growth in worker pay, which barely outpaced inflation, at 32 percent. According to *Business Week*, CEO pay now stands at 531 times the pay of the average worker.
- If the average annual pay for production workers had grown at the same rate since 1990 as it has for CEOs, their 2000 annual earnings would have been $120,491 instead of $24,668.
- If the minimum wage, which stood at $3.80 an hour in 1990, had grown at the same rate as CEO pay over the decade, it would now be $25.50 an hour, rather than the current $5.15 an hour.

2. Layoff Leaders Win, Workers Lose

- CEOs of firms that announced layoffs of 1,000 or more workers this year earned about 80 percent more, on average, than executives at 365 top firms surveyed by *Business Week*. The layoff leaders earned an average of $23.7 million in total compensation in 2000, compared with a $13.1 million average for executives as a whole.
- The top job-cutters received an increase in salary and bonus of nearly 20 percent in 2000, compared to average raises in that year for U.S. wage workers of about 3 percent and for salaried employees of 4 percent.

3. CEOs Cash in on Corporate Tax Rebates

- Between 1996 and 1998, 41 large, profitable corporations used special tax breaks and credits to reduce their corporate tax bill to less than zero. Instead of paying taxes, they received outright tax rebate checks from the U.S. Treasury. As a group, the CEOs of these tax rebate firms averaged pay hikes of 69 percent, far above the typical CEO raise of 38 percent. Those pay hikes, made possible in part by tax rebates, totaled $194 million. In six cases, the CEO's raise entirely consumed his company's tax rebate for the year.
- CEOs at the tax rebate companies earned 12 percent more on average than executives in the *Business Week* surveys for the years 1996-98. Executive pay at the tax rebate companies totaled $495 million during those years, equivalent to 15 percent of the $3.2 billion in total tax refunds paid to those companies over the period.

4. Gender Wage Gap Is Widest at the Top

- Heather Killen, a senior vice president of Yahoo, was the highest-paid woman in America in 2000, with a total compensation package of $32.7 million, a mere 11 percent of the highest-paid male (John Reed of Citigroup: $293 million).
- The 30 highest-paid women in the corporate world earned average total compensation of $8.7 million, as compared with $112.9 million for the 30 highest-paid men, a ratio of 1 to 13.

5. Closing the Wage Gap

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

In the year 2000 we witnessed the beginning of economic slowdown after almost a solid decade of rapid growth. But firms still gave healthy raises to CEOs.

Introduction: A Question of Fairness

For eight years, the Institute for Policy Studies and United for a Fair Economy have tracked the growing divide between CEO pay and workers pay. No set of statistics better sums up the swift flight from fairness that characterized what many now call the "decade of greed" in this country.

Never over these years, however, has there been such a blatant pattern of CEOs benefiting at the expense of their workers as the year 2000. That year witnessed the beginning of economic slowdown after almost a solid decade of rapid growth. And, as firms began massive layoffs at mid-year, a trend which has accelerated in the first half of 2001, firms still gave healthy raises to CEOs. Our calculations demonstrate that, on average, CEOs at firms that excelled in layoffs were rewarded with larger pay packages than those who did not lay off workers.

This study offers five vantage points on the CEO-worker divide. First, we sum up the trends of the past "decade of greed." Second, we study the fortunes of CEOs at 52 U.S. firms that announced layoffs of 1,000 or more workers in the first half of this year. Third, we examine the relationship between corporate tax rebates and CEO pay hikes. Fourth, we look at the fate of female executives during an era of a slow narrowing of the gender gap among ordinary workers. Finally, we chronicle the spreading efforts by citizen groups to close the gap.

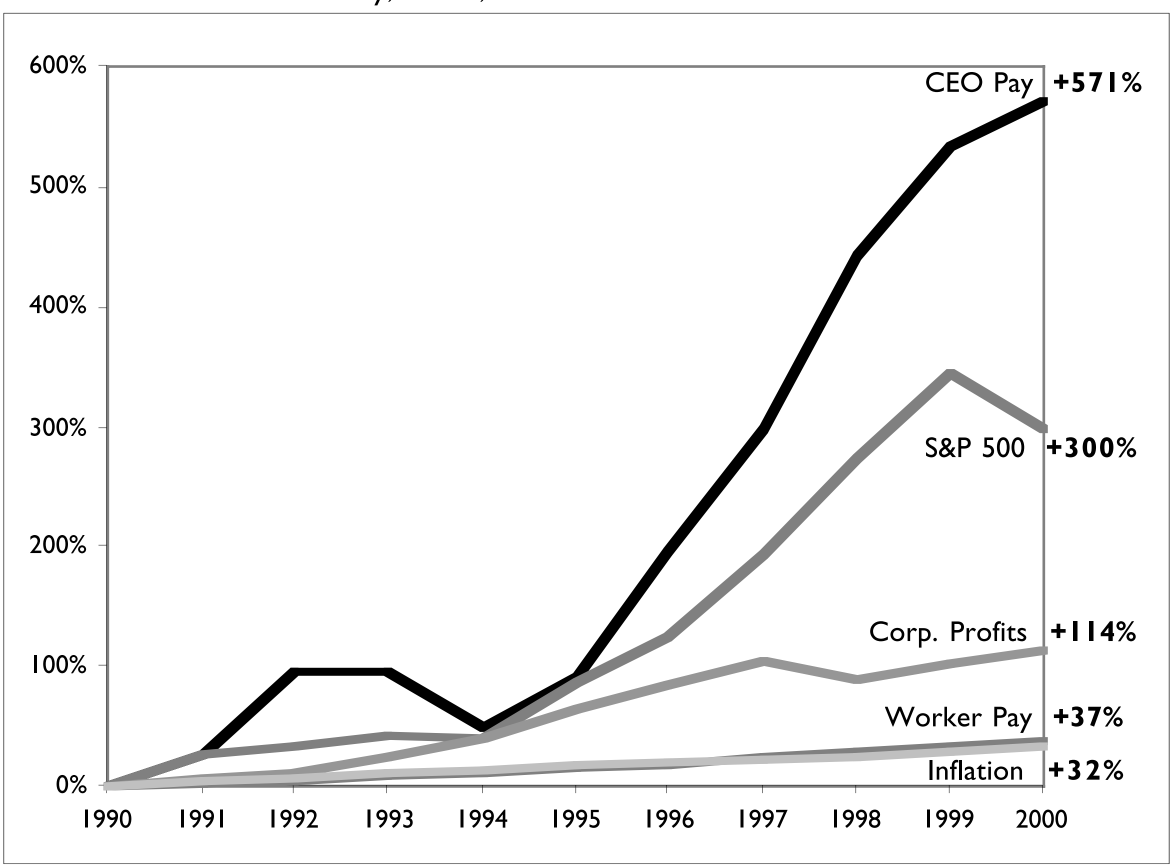
1. The 1990s: A Decade of Greed

Executive Pay jumped 571% between 1990 and 2000 while average worker pay barely outpaced inflation.

Throughout the great bull market of the 1990s, CEO pay skyrocketed, outpacing the stock market itself, as well as corporate profits and, of course, worker pay. As CEO pay zoomed higher in the late 1990s, major business publications like *Business Week* and the *Wall Street Journal* turned hostile, calling CEO compensation "out of control" and "pay for no performance." Meanwhile, grassroots organizations spotlighted the issue and campaigned for legislation that would reduce the tax deductibility of CEO pay. The AFL-CIO put CEO-to-worker pay ratio calculators on a website, paywatch.org. And legions of shareholder activists sponsored publicity-generating resolutions at companies with wide pay gaps.

As for investors, they sat on the sidelines for the most part. Content with their fattening portfolios, they were willing to cut CEOs a break, even if CEO pay was rising way out of proportion to the growth of the market.[1] CEOs capitalized on this complacency and, in collaboration with pliant compensation committees, took all they could get.

Chart 1.1 • The 1990s: CEO Pay, Profits, Stocks Leave Workers Far Behind



Sources: CEO Pay: Business Week annual executive pay surveys. **S&P 500 Index:** Standard & Poor's Corporation. Figures are year-end close. **Corporate Profits:** Bureau of Economic Analysis, National Income and Product Accounts. **Average Worker Pay:** Bureau of Labor Statistics, Average Weekly Hours of Production Workers (Series EEU00500005) and Average Hourly Earnings of Production Workers (Series EEU00500006) **Inflation:** Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers.

Fortune magazine found that compensation committees are generally controlled by the CEOs themselves.

Then came the great market "correction" of 2000. The NASDAQ tumbled, the S&P 500 slipped, and trillions of dollars in paper wealth evaporated. But CEO pay continued to rise, to an average of $13.1 million a year in 2000, according to *Business Week's* annual survey of 365 of the largest U.S. corporations. Critics in the business press began sharpening their rhetoric. In June 2001, *Fortune* magazine devoted a cover story to the "Great CEO Pay Heist." The magazine pointed out that the CEO pay leaders for each of the last five years pocketed a total of $1.4 billion, while four of them led "marginal to horrible performers:" Walt Disney, Cendant, Computer Associates, and Apple Computer.[2] For the moment, it remains to be seen whether investors as a group will begin to take action on exorbitant CEO pay.

The last refuge for defenders of big CEO pay packages is the argument that "the market" determines CEO pay. *Fortune* magazine debunked that old chestnut with their investigation into the workings of the compensation committees that set CEO pay. They found that these committees are generally controlled by the CEOs themselves. Directors who won't play along are rotated out to other committees. One chairman of a compensation committee agreed with another director that "this stuff is wrong," but went on to say, "we've got to do it."[3] In a speech in June 2001, soon after the article's publication, acting Securities and Exchange Commission Chair Laura Unger said, "These admissions trouble me. Directors have an obligation to the company and its shareholders, not the CEO. Kow-towing to management and blindly signing off on large compensation packages is not a proper discharge of a director's duties."[4]

Chart 1.2 • CEO Pay and the Minimum Wage

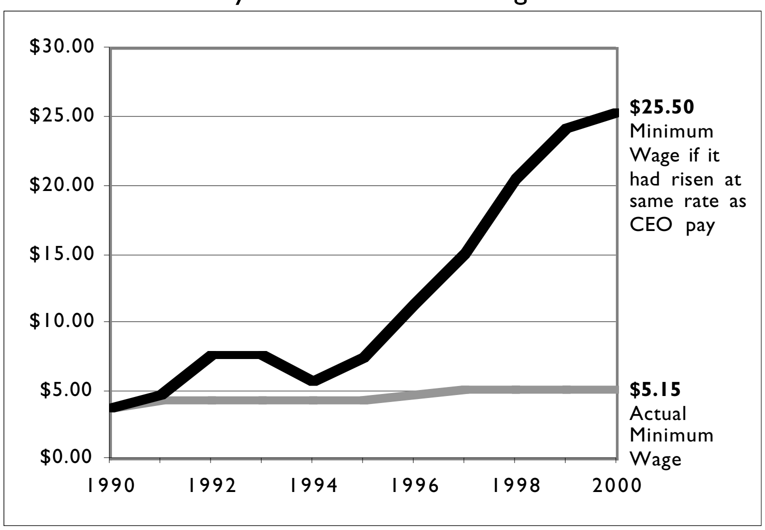
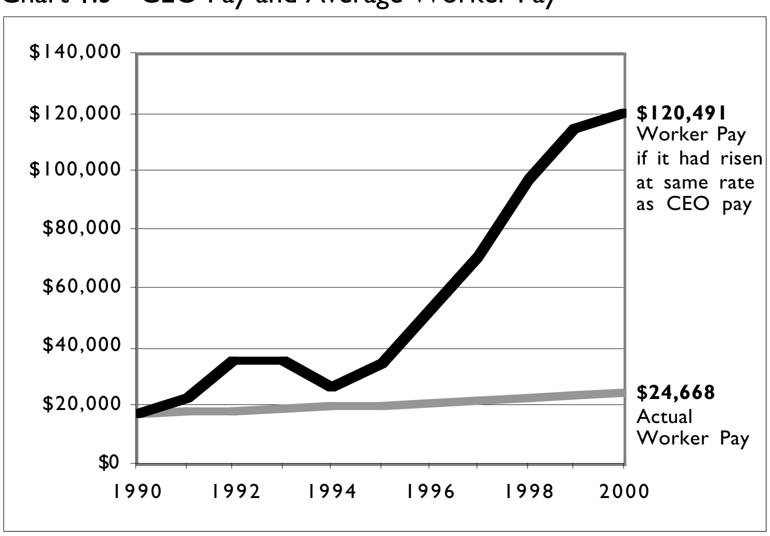


Chart 1.3 • CEO Pay and Average Worker Pay



All told, executive pay jumped 571 percent between 1990 and 2000 (before adjusting for inflation), rising even in 2000, when the S&P 500 suffered a 10 percent loss. The explosion in CEO pay over the decade dwarfed the 37 percent growth in worker pay, which barely outpaced inflation, at 32 percent. According to *Business Week*, CEO pay now stands at 531 times the pay of the average worker.[5]

One way to put the growth in CEO pay in perspective is to imagine what would have happened to paychecks at the bottom and middle of the pay scale if they had risen at the same rate as CEO pay. If the minimum wage, which stood at $3.80 an hour in 1990, had grown at the same rate as CEO pay over the decade, it would now be $25.50 an hour, rather than the current $5.15 an hour. If the average annual pay for production workers had grown at the same rate since 1990 as it has for CEOs, their 2000 annual earnings would have been $120,491 instead of $24,668.

If the minimum wage had grown at the same rate as CEO pay through the 1990s, it would now be $25.50 an hour.

The growing gap in CEO vs. worker pay would perhaps be less worrisome if workers at the bottom in these firms made enough to make ends meet. A new study by the Economic Policy Institute (*Hardships in America: The Real Story of Working Families*) offers startling new conclusions to the contrary. The study concludes that 29 percent of working families do not earn a living wage as defined by local and national budget studies. Of these families, over 70 percent experience real hardships – having to skip meals or rent payments and forgo needed medical care.[6]

The top layoff leaders earned 80% more than the average CEO in 2000.

2. Layoff Leaders Win, Workers Lose

The first half of the year 2001 saw the biggest wave of job cuts of any year during the past decade. According to the outplacement firm Challenger, Gray, & Christmas, U.S. firms announced layoffs of 777,362 workers in the first six months of 2001, more than triple the number announced during the first half of last year and 15 percent more than in 1998, the top layoff year of the 1990s.[7]

And yet as the U.S. economy began to slide in 2000, firms that were sharpening their layoff axes doled out generous compensation packages to their top executives. In fact, the top layoff leaders earned far more in 2000 on average than other CEOs. This study examines 52 U.S. firms that announced layoffs of 1,000 or more workers between January 1 and August 1, 2001.[8] These top job-cutters earned about 80 percent more, on average, than executives at 365 firms surveyed by *Business Week*. The layoff leaders earned $23.7 million in total compensation in 2000, compared with a $13.1 million average for executives as a whole.[9]

Chart 2.1 • Average Total Compensation, 2000

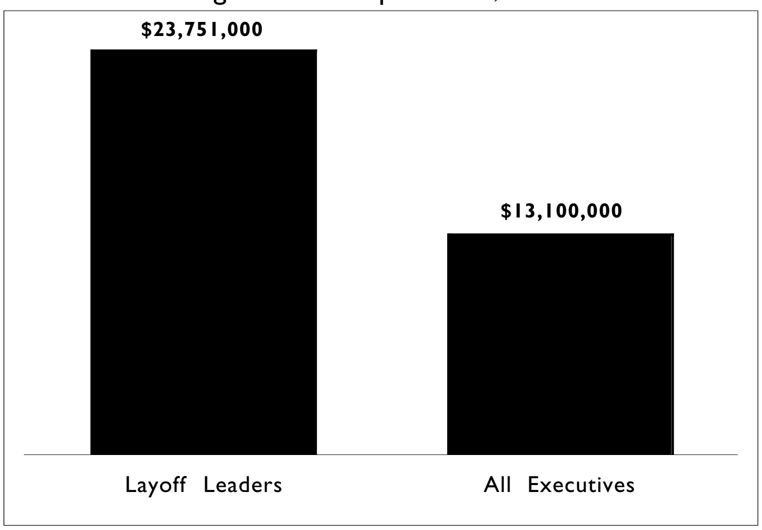
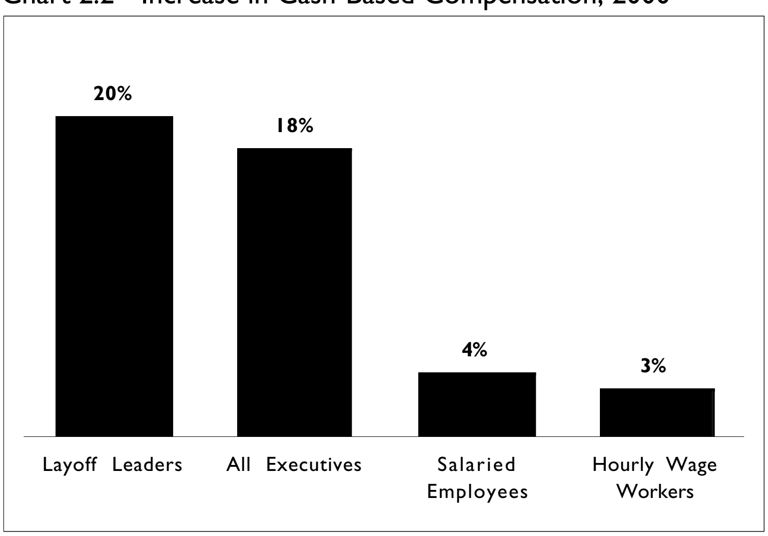


Chart 2.2 • Increase in Cash-Based Compensation, 2000



In terms of salary and bonus, the layoff leaders received $3.1 million on average, an increase of about 20 percent over 1999. This reflects a new national trend of padding the cash-based portion of compensation packages. During the bull market of the 1990s, executives were less interested in old-fashioned salary and bonus payments than in the stock options that brought in the real money, often in the realm of hundreds of millions of dollars per year. Thus, the salary and bonus portion of compensation for top U.S. executives as a whole stagnated between 1996 and 1998 and increased a relatively modest 9.5 percent in 1999. Then, in the year 2000, these cash payments spiked 18 percent. This trend was not mirrored for U.S. workers as a whole, however. According to the Department of Labor, average wage workers received a pay hike of only 3 percent in 2000, and salaried employees got about 4 percent more.[10]

For a complete list of layoff leaders and CEO pay, see table 2.1 in the appendix.

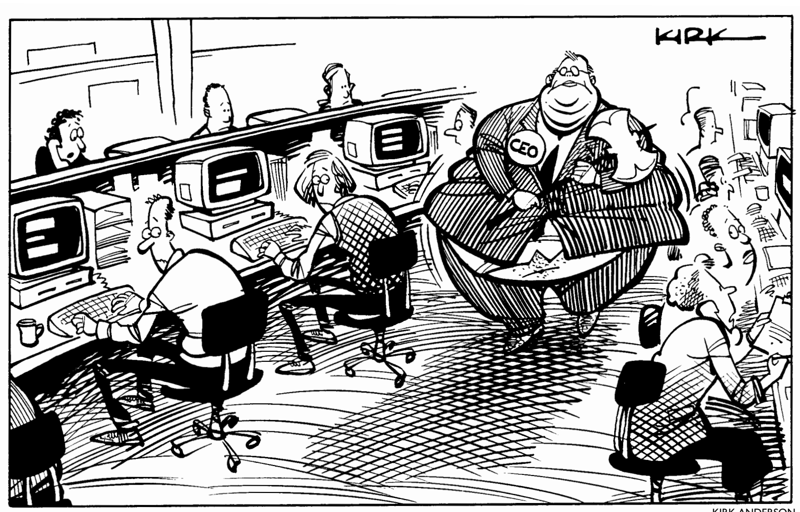
WorldCom CEO Bernard Ebbers was lucky enough to be at the helm of a company that cushioned him from his own reckless investment decisions.

Some Examples of Layoff Leaders

WorldCom CEO Bernard Ebbers represents one of the most extreme examples of the disparity between how workers and CEOs are doing during the downturn. In early 2001, Ebbers announced a layoff of 6,000 workers. Meanwhile, he was personally experiencing the exact opposite of job insecurity. First, he got the WorldCom board to grant him a $10 million bonus, in return for his promise to stay with the company for at least two more years. On top of that, he also persuaded the telecommunications giant to give him a $61.5 million loan and guarantee $100 million more in additional loans. Why was he in need of financial aid? According to the *New York Times*, Ebbers appears to have run his own personal finances in the same high-risk way he ran the company. At the same time that the company was borrowing to finance acquisitions, Ebbers took out his own margin loans to buy company stock.[11] Once the stock began to fall, Ebbers — unlike most Americans — was lucky enough to be at the helm of a company that cushioned him from his own reckless investment decisions.

Seemingly by contrast, Amazon CEO Jeffrey Bezos received a paltry $81,840 in total compensation in 2000, making his paycheck much smaller than any of the other layoff leaders. But was Bezos really suffering along with the 1,300 workers whose jobs he cut? The company's proxy explains that Bezos requested not to receive additional compensation in 2000 because of his substantial ownership in the company (approximately 32.4 percent). In fact, Bezos is hardly a charity case, with holdings in the world's biggest e-tailer that are still estimated to be worth more than $1 billion, despite the recent plunge in the company's stock price. Furthermore, many workers were irate about how Bezos handled the layoffs. In Seattle, workers charged that the company had targeted a customer services center there for job cuts because employees had been working for months to form the company's first union bargaining unit.[12] Amazon also sparked anger by trying to get the laid-off workers to sign an agreement not to bad-mouth the company in return for bigger severance deals.[13]

Many laid-off workers at Disney were also extremely angry, in that case because the firm announced the job cuts at a point when profits were strong. Disney CEO Michael Eisner boasted of a 33 percent increase in operating profits for the first quarter of 2001 at the same time that he announced plans to lay off 4,000 people. Eisner explained that he was being pre-emptive and trying to "recession-proof" the media giant, but many employees told reporters that it was especially upsetting to get axed while the firm was still doing well.



TRIMMING THE FAT

KIRK ANDERSON

"CEOs who want to keep their jobs . . . must take money away from the people who built the company, and give it to the people who financed it."

—Al Lewis
Business Editor,
Denver Post

Disney initially announced that it would attempt to shrink its workforce through buyouts, but it recently admitted that few employees had accepted the offer. Thus, the jobs of thousands of theme park personnel and hundreds of cartoonists are on the chopping block. Meanwhile, Eisner is enjoying the $72.8 million he earned last year in total compensation.

The Downsizing Dilemma

With the exception of Disney, most of the layoffs examined in this study reflect the country's economic slowdown, particularly in the hi-tech industry. Some 21 of the 52 layoff leaders were computer, internet-related, or telecommunications companies that bemoaned the sharp downturn in demand for computers, electronics, and networking products and services. Another 15 of the job-cutters are traditional manufacturing firms, whose excuses included the slowdown in the U.S. auto market, higher costs for raw materials such as oil and natural gas, and the slump in global demand. Many of the layoffs were also associated with the purges that typically follow mergers and acquisitions.[14]

In these cases, firms often argue that they have no choice but to slash workers. However, many analysts argue that job cuts are not a panacea, especially in the long term. Kenneth De Meuse, of the University of Wisconsin-Eau Claire, has described the tendency to seesaw between periods of mass hiring and investment in training and periods of mass layoffs as "corporate bulimia." He co-authored a study in the mid-1990s that compared Fortune 100 firms that had announced layoffs in 1989 with those that had not. What the study found was that the job-cutters saw minor improvements in performance in the year after the layoffs, but financial performance in the second year was substantially worse than in those that had not slashed workers.[15] Every 10 percent increase in the size of the announced layoff was associated with a 2.9 percent decline in profit margin and 3.7 percent decline in return on investment. A similar study by the American Management Association of 713 firms found that of those that downsized between 1989 and 1994, only about half had increased profits and about a third had increased productivity, while 86 percent had a drop in worker morale.[16]

Denver Post Business Editor Al Lewis claims that the biggest layoffs this year were made less in the interest of the company than to impress stockholders. "CEOs who want to keep their jobs must be willing to cut others' when earnings decline," he wrote in April 2001. They must take money away from the people who built the company, and give it to the people who financed it. It doesn't matter if the slowdown is temporary. It doesn't figure that the company spent millions on incentive programs to attract these employees and then millions more to train them. It's not even a concern that some of these workers will take what they learned to competing ventures. Shareholders want action. Their plan, after all, is to cash out in six months and be on to the next thing."[17]

Thus, while workers bear the immediate burden of the current economic downturn, their companies face possible negative effects that are likely to hit long after the CEOs have pocketed even greater sums of compensation.

3. CEOs Cash in on Corporate Tax Rebates

When a CEO cashes in his stock options, his bank account gets bigger, and the company's tax bill gets smaller.

This summer, the Bush Administration is basking in the glow of publicity surrounding $39 billion in tax rebate checks to individual taxpayers. Many taxpayers probably don't realize that hundreds of millions of dollars in corporate tax rebates routinely flow into the coffers of some of America's richest corporations, sometimes reducing their total tax bill to less than zero.

Less than zero? How is that possible? Unlike the 2001 income tax rebates, a corporation doesn't need to actually *owe* taxes in order to get a tax rebate check. On the contrary – corporations can use a variety of special tax breaks to reduce their tax bill all the way into negative territory. That means they pay *zero* taxes, *and* they receive outright rebate checks from the Treasury – making their after-tax income higher than their before-tax income.

How often does this happen? Between 1996 and 1998, the U.S. government wrote over $3.2 billion in tax rebate checks to 41 large, profitable U.S. corporations, according to "Corporate Income Taxes in the 1990s," a study issued by the Institute on Taxation and Economic Policy (ITEP) in October 2000.

Not surprisingly, CEOs are at the head of the line when it comes time to collect this quiet form of corporate wealthfare. Our study looked at 40 of the 41 tax rebate companies for which CEO pay data was available[18] and found that overall, those tax rebates helped fatten the CEO's pay envelope.

An Unholy Alliance: Corporate Taxes, Stock Options, and CEO Pay

The statutory tax rate on corporate profits is 35 percent, but overall, the 250 corporations in the ITEP study paid an effective rate of only 20.1 percent in 1998. The disparity occurs because corporations are quite adept at mining the tax code for tax breaks. Some use accelerated depreciation, where companies write off factories, buildings, and equipment faster than they actually wear out. There are tax credits for all sorts of activities, such as research and development, operating in Puerto Rico, and drilling for oil. And then there are the arcane and abusive tax shelters that high-priced law firms customize for their corporate clients.

But incredibly, one of the reasons that corporations can get away with receiving – rather than contributing to – the nation's tax revenue is also one of the reasons that CEO pay has taken off in the 1990s: stock options. In a process that gives new meaning to the word "synergy," corporations take a tax deduction in the same year that employees exercise their stock options. The deduction is equal to the difference between what the employees pay for the stock and what it's worth.[19] The result: when a CEO cashes in his options, his bank account gets bigger, and the company's tax bill gets smaller.

CEOs of firms receiving tax rebates averaged pay hikes of 69 percent, far above the average CEO raise of 38 percent.

The Institute on Taxation and Economic Policy found that from 1996 to 1998, 233 out of 250 companies received stock-option tax benefits, reducing their taxes by a total of $25.8 billion. According to the ITEP study, most of the decline in the effective corporate tax rate from 22.9 percent in 1996 to 20.1 percent in 1998 stems from the growth in these stock option tax benefits.[20]

Corporate Tax Rebates Can Help Pad CEO Pay

On 28 occasions between 1996 and 1998, a CEO's compensation rose in the same year that the CEO's company received a tax rebate. As a group, CEOs of the firms receiving tax rebates averaged 69 percent pay hikes in the year of the rebate, far above the average CEO raise of 38 percent for the 1996-98 period.[21] Collectively, CEOs of companies receiving tax rebates saw their pay rise by $194 million. At six companies – Black & Decker, Praxair, Coca-Cola, Colgate-Palmolive, Enron, and McKesson – the CEO's pay hike consumed his company's entire tax rebate for that year.

Chart 3.1 • Average Annual Increase in Total Compensation

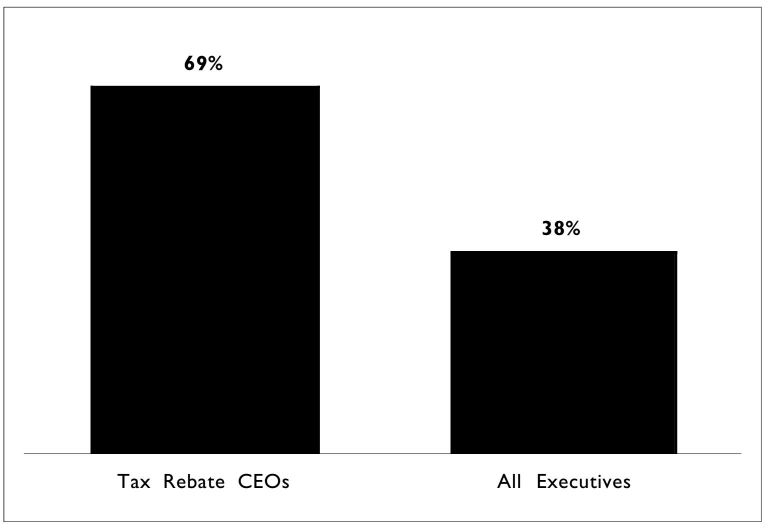
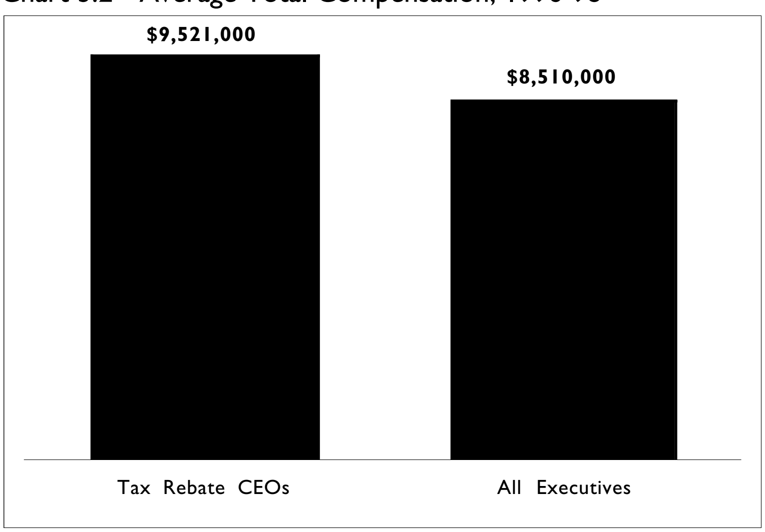


Chart 3.2 • Average Total Compensation, 1996-98



Total CEO pay at these tax rebate companies averaged $9.5 million — that's $1 million more than the average CEO pay in *Business Week's* annual surveys for 1996-98. For the three-year period, CEO pay at the tax rebate companies was 12 percent higher than average CEO pay.[22] CEO pay at the tax rebate companies totaled $495 million over the three years, a figure equivalent to 15 percent of the $3.2 billion in total federal tax rebates paid to those companies.

For complete lists of corporate tax rebate recipients and CEO pay, see Tables 3.1and 3.2 in the appendix.

Examples of CEO Pay at Corporate Tax Rebate Recipients

William C. Steere Jr., Pfizer

In 1998, as pharmaceutical giant Pfizer was developing the wonder drug Viagra, the company posted a $1.2 billion profit. Nevertheless, due to restructuring charges, tax breaks on Puerto Rico operations, and stock options, the company owed zero federal taxes and received the second largest tax rebate check of the year —

nearly $200 million. That reduced Pfizer's effective tax rate to an invigorating – 16.5 percent.[23] That same year, Steere's option-fueled paycheck went up $10 million, to $38.2 million.[24] According to a July 2001 study by Families USA, high executive compensation is part of what creates high prescription drug prices. As Ron Pollack, Families USA's executive director said, "Pharmaceutical companies charging skyrocketing drug prices like to sugar coat the pain by saying those prices are needed for research and development, [but] the truth is high prices are much more associated with record-breaking profits and enormous compensation for top drug company executives."[25]

In 1997, Colgate-Palmolive paid no corporate taxes and got an outright $19.3 million tax rebate. That year, CEO Reuben Mark's pay went up a remarkably similar $18.7 million.

Roberto C. Goizueta, Coca-Cola

A pioneer in big CEO pay packages, the late Roberto Goizueta was, according to *Fortune* magazine, apparently the world's first CEO billionaire: "the first person to amass assets worth more than $1 billion as a hired hand, without having founded or financed a business."[26] In 1997, Coca-Cola posted a $1.5 billion profit, but due to tax benefits from stock options, the government actually owed the company $72 million in tax rebates, reducing Coke's effective tax rate to a cool and refreshing – 4.9 percent.[27] Goizueta quaffed the entire $72 million tax rebate himself when he cashed in options to boost his pay by $96 million, enough to put him in second place on the CEO pay scoreboard for 1997.[28]

Peter I. Bijur, Texaco

From 1996 to 1998, no company received more money in tax rebates in a single year than Texaco. In 1997, the oil giant paid zero taxes and cashed a $572 million tax rebate check due to energy tax credits, stock options, and a settlement with the IRS. With profits of $1.5 billion, the rebate reduced Texaco's effective tax rate to a subterranean – 39 percent.[29] That same year, CEO Peter Bijur's pay rose 23 percent to $5.5 million.[30] In 1998, Texaco had to settle for a paltry $68 million tax rebate and a – 37.2 percent effective tax rate.[31] Interestingly, Bijur's pay that year went up only 11 percent, to $6.2 million.[32] In addition to its prowess in drilling for corporate tax loopholes, Texaco has also been a leader in environmental destruction. From 1972-1992, Texaco's Trans-Ecuadorian Pipeline accounted for 16.8 million gallons in oil spills, millions more than even the Exxon *Valdez* spill. Texaco's plants also produced an estimated 4.3 million gallons of toxic "produced water" *every day*. The carcinogenic water was dumped into open, unlined pits, against oil industry standards, that still flow into local streams and rivers.[33]

Reuben Mark, Colgate-Palmolive

In 1997, toothpaste and dish-soap maker Colgate-Palmolive got a minty-fresh $19.3 million rebate from the Treasury, due to accelerated depreciation and stock options. That year, CEO Reuben Mark's pay went up a remarkably similar $18.7 million. One year later, the company cleaned up with another rebate, this time worth $19.6 million, and Mark's pay envelope fattened by $27.3 million. That means that every penny of Colgate's $38 million in total tax rebates over the two years went to the CEO in the form of pay hikes.[34] Coinciding with 1997's rebate check was the last of two years of 3,000 announced layoffs.[35] If we assume Colgate paid their employees the national average for those years and

In 1998, GM collected a $19 million tax rebate, and CEO John F. Smith's salary rose by about $1.5 million. But while Smith's pay was rising, GM's workforce dwindled.

used their government rebate to pay workers instead of inflate Mark's bank account, over one-half of the jobs could have been saved.[36] (The money also could have been used to give each of the company's 36,000 employees a $1,056 pay raise.)

John F. Smith, General Motors

General Motors's 1996 tax rebate was the second largest in the three-year period from 1996 to 1998, clocking in at a sporty $395.4 million, due to stock options, an alternative minimum tax credit, leasing activities and research tax credits. With profits that year of $1.5 billion, the tax rebate reduced GM's effective tax rate to –26 percent. Smith's salary in 1996 rose by a little more than half a million dollars. In 1998, GM collected a $19 million rebate, and again Smith's salary rose, this time by about $1.5 million. But while Smith's pay was rising, GM's workforce dwindled. In 1997, the corporation announced it would cut 7,325 jobs, the ninth-largest layoff notice that year.[37]

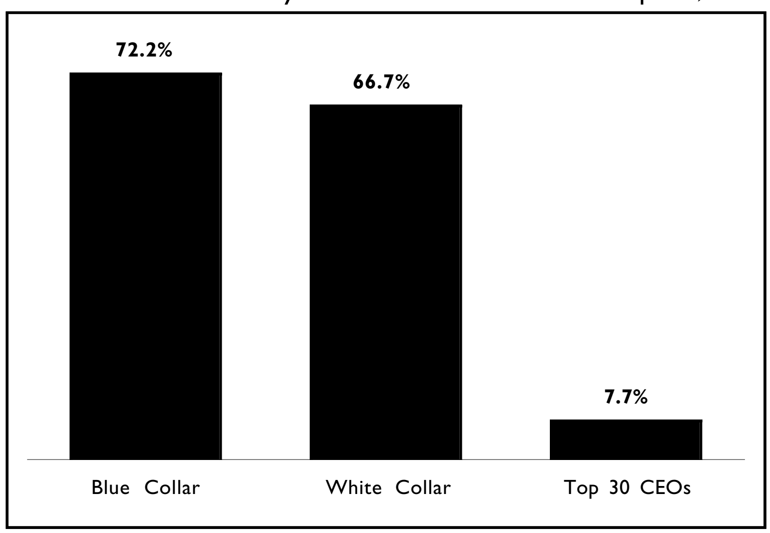
4. Gender Wage Gap Is Widest at the Top

In 2000, the top 30 women CEOs averaged $8.7 million in total compensation, as compared with $112.9 million for the 30 highest paid men, a ratio of 1 to 13.

Over the past decade, women workers have taken small steps in narrowing the gap between their wages and those of their male counterparts. According to figures from the Economic Policy Institute, blue-collar women workers made 72.2 percent as much as their male counterparts in 2000, up from 68.2 percent in 1990. White-collar women workers made 66.7 percent as much as their male counterparts in 2000, up from 65.3 percent in 1990.[38]

Compare this gap to that between male and female CEOs. In 2000, women executives accounted for only 171 of the 4,341 highest paid executives at 825 companies studied by *Business Week*.[39] That adds up to only 3.9 percent of the total. Heather Killen, a senior vice president of Yahoo, was the highest paid woman in America in 2000, with a total compensation package of $32.7 million, a mere 11 percent of the highest paid male (John Reed of Citigroup: $293 million). Or, look at the 30 highest paid women in the corporate world. In 2000, their total compensation averaged $8.7 million, as compared with $112.9 million for the 30 highest paid men, a ratio of 1 to 13.[40]

Chart 4.1 • Women's Pay as a % of Their Male Counterparts, 2000



Perhaps the only positive thing that can be said about these figures is that gap between female CEO pay and women workers is much less than the gap between male workers and their bosses. The solution lies in raising wages for both women and men at the bottom of the wage ladder and cutting the pay of male CEOs.

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

5. Closing the Wage Gap

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

Increasing State and Federal Minimum Wages

The minimum wage has historically played an important role in raising the earnings of low-wage workers (which in turn helps workers the next few rungs up the economic ladder). Unfortunately, the policy debate over the issue has focused almost exclusively on the risk of job loss, despite the fact that recent research demonstrates that such job loss effects are either nonexistent or negligible. Given these findings, too little attention has been paid to the question of who benefits from the increase in the minimum wage. Analysis done by organizations such as the Economic Policy Institute reveals that benefits of the minimum wage go almost exclusively to those who need it the most: full- and part-time adult workers in lower income families.[41]

The current minimum wage of $5.15 an hour – $10,712 a year – is not enough for a family with children to eke out a living. Raising the minimum wage is only a small step in closing the ever-growing gap. The minimum wage should be at least a "living wage" that would lift a family of four over the poverty line. Currently, that wage would be $8.20 an hour. If the minimum wage were raised to that level over the next two years and indexed annually to inflation, more workers could live in dignity and we wouldn't need to wait for politicians to act in order to protect its buying power.[42] This fall, Congress is expected to take up a minimum wage increase, although there is no chance that the proposed wage will be as high as $8.20 an hour, and the bill will undoubtedly be loaded up with business tax breaks.

Local Living Wage Campaigns

Across the country, coalitions have come together at state and municipal levels to advocate for living wage ordinances. In 1994, the city of Baltimore passed the first living wage ordinance. Since then, in 49 cities and counties, including San Antonio, Boston, Chicago and Milwaukee, coalitions of labor, religious and community activists have pushed successfully for the passage of living wage ordinances.[43]

There are currently 69 active municipal and county-wide living wage campaigns organizing to institute laws that will require companies doing business with local governments to pay a living wage, usually pegged to the amount that would lift a family of three or four above the region's poverty level. Most ordinances include vendors, private contractors and organizations receiving substantial public subsidies, including real estate developers who get housing development subsidies.

There are currently 69 active municipal and county-wide living wage campaigns organizing to institute laws that will require companies doing business with local governments to pay a living wage.

Living Wage Campaigns Underway

Compiled by the ACORN Living Wage Resource Center • February, 2001

Alabama
Birmingham

Arkansas
Little Rock

California
Marin County
Richmond
Sacramento
San Diego
San Mateo
Santa Barbara
Santa Monica
Sonoma Co. / Santa Rosa
Ventura County / Oxnard

Connecticut
Bridgeport
New Britain

Colorado
Boulder
Grand Junction

District of Columbia
Washington

Florida
Gainesville

Iowa
Davenport
Iowa City

Illinois
Champagne-Urbana

Indiana
Indianapolis
South Bend

Kansas
Lawrence
Manhattan
Wichita

Kentucky
Lexington
Louisville

Louisiana
Baton Rouge
New Orleans

Massachusetts
Brookline

Maryland
Montgomery Co.

Maine
Portland

Michigan
Ann Arbor
East Point
Kalamazoo

Minnesota
St. Louis Co.

Montana
Bozeman
Missoula

North Carolina
Greensboro

New Hampshire
Portsmouth

New Jersey
Camden

New Mexico
Albuquerque

New York
Albany
Binghamton
Ithaca
New York City
Niagara Co.
Rochester
Rockland Co.
Suffolk Co.
Syracuse
Westchester Co.

Nevada
Reno

Ohio
Columbus

Oklahoma
Oklahoma City

Oregon
Eugene
Medford
Salem

Pennsylvania
Philadelphia
Pittsburgh / Allegheny

Rhode Island
Providence

South Carolina
Charleston

Tennessee
Knoxville
Nashville

Texas
Austin
Dallas

Utah
Salt Lake City

Virginia
Charlottesville
Richmond

Vermont
Burlington

Wisconsin
Racine

Campus Campaigns
Agnes Scott College, GA
American University / Washington College of Law, DC
Brown University, RI
Earlham College, IN
Fairfield University, CT
Harvard University, MA
Johns Hopkins Univ., MD
Princeton University, NJ
Stanford University, CA
Swarthmore College, PA
University of Tennessee
University of Virginia

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

These living wages range between $6.25 and $12.00 per hour, depending on the location. Unfortunately, wages based on the federally determined poverty line are usually not adequate. Estimates of the hourly wage necessary to lift families out of the need for food stamps, housing subsidies and other forms of assistance are closer to $11 to $13 per hour, while economic security would require even higher wages.[44] A "living wage" based on the poverty line might be better termed a *survival* wage. But, at times, local campaigns must make political calculations about what has the potential for passage, without ignoring the inadequacy of even "living wages" as they are often defined.

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

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

There are also business benefits in paying a living wage. According to *Choosing the High Road,* a report issued in 2000 by the Boston organization Responsible Wealth, "Studies and surveys of businesses that pay decent wages . . . describe real business advantages as a result of higher wages." Employees have higher morale, are more productive, and have lower absenteeism and turnover. Businesses also report improvements in the quality of products and services delivered to customers.[45]

The Income Equity Act: Eliminating Public Subsidies for Wage Inequality

The issue of wage inequality touches a lot of nerves. Most people are incensed by the arrogance of top managers paying themselves multi-millions while overall paychecks remain flat and workers are downsized out of jobs. They are even more outraged when they learn that corporations reduce the taxes they pay by deducting these entire salaries. As a result, other taxpayers pick up the revenue slack caused by excessive paychecks.

One possible reform proposed by Rep. Martin Sabo (D-MN), the Income Equity Act (H.R. 2691), would deny corporations the right to deduct the excessive pay of top managers from taxable corporate profits. Polling data suggests that such a reform would prove popular.[46] Currently, the Internal

Revenue Code allows all businesses to deduct "reasonable salaries and benefits" as a cost of doing business. "Reasonable," however, is not defined. A 1993 Congressional reform to cap the deductibility of salaries at $1 million is so full of loopholes that it is virtually useless. If the directors of a corporation declare that the pay of their top managers is "performance based," they avoid the cap.

The Income Equity Act would limit the tax-deductibility of executive compensation to an amount equal to 25 times the salary of the lowest-paid worker in a firm.

Under the Income Equity Act, the deduction for executive pay is capped at 25 times the lowest paid worker in a firm. For example, if a filing clerk at a firm makes $18,000 per year, that business may only deduct $450,000 — or 25 times $18,000 — in compensation per executive. Under such a provision, companies could reduce their tax liability by raising the wage floor or reducing top pay.

In July 2001, Rep. Sabo revised the Income Equity Act to address non-cash compensation. In a statement, Sabo said, "More and more executives are receiving compensation in forms other than cash, such as stock options, memberships to premier health or sporting facilities, or higher education for their children. I've updated the Income Equity Act to close that loophole and ensure that taxpayers do not inappropriately subsidize these forms of compensation."

Sabo pointed out that the Income Equity Act would not cap salaries. "My bill would not limit executive pay, nor would it dictate what a company must pay its employees," he said. "My legislation simply asserts that our government should not, through the tax code, subsidize excessive pay. If companies want to receive larger tax deductions, they should pay their lowest-paid employees better."

Eliminating the deductibility of pay accomplishes a number of things. One, it sets a social norm: corporations cannot expect tax subsidies for excessive and unequal pay. Two, it stimulates an important national debate about what the appropriate gap between highest and lowest paid workers should be. Finally, it generates revenue from corporations that have chosen to heap their profits on a limited few rather than distribute them widely to all workers. The amount of potential revenue is not insignificant. If the Income Equity Act had been applied to only the top two executives at the 365 companies covered in the *Business Week* pay survey, the act would have generated tax revenues of over $514 million in 1997 and $493 million in 1998.[47]

Shareholder Resolution Campaigns

For decades, shareholder activists have used the shareholder resolution process to pressure corporations to change their environmental and labor practices. These resolutions are reported in the companies' proxy statements and are voted on by shareholders. Due to a proxy voting system that is heavily weighted toward management, shareholder resolutions rarely garner a majority of votes – a seven-percent "yes" vote is considered highly successful. But even when they lose, shareholder resolutions affect the behavior of individual corporations because of the adverse publicity they bring. Beginning in the late 1990s, the issue of excessive CEO pay has moved to the fore among shareholder activists. In 2000, *Shareholder resolutions are succeeding in their mission to draw attention to the problem of excessive CEO pay.*

dozens of shareholder resolutions on executive compensation were filed nationwide.

Responsible Wealth, a national network of businesspeople, investors, and affluent Americans, filed 11 resolutions in 2000 calling on corporate boards to reduce pay disparities within their companies. The Responsible Wealth resolutions addressed the issue in a variety of ways. Resolutions at AT&T, FleetBoston Financial, and Raytheon sought to link CEO pay to employee or customer satisfaction. Citigroup and Household International shareholders joined with community organizations like the Self-Help Credit Union and ACORN to ask the companies to link CEO pay to progress on abandoning predatory lending practices. A group of Coca-Cola shareholders asked for a report on CEO severance pay in the wake of a $30 million golden parachute awarded to failed CEO Douglas Ivester. At ExxonMobil, shareholders filed a resolution that would freeze CEO pay during periods of downsizing. And Walt Disney shareholders asked the company to broaden the ownership of stock options so that more employees could be included.

These resolutions won millions of votes from shareholders, though no individual resolution picked up a majority. However, the resolutions succeeded in their mission to draw attention to the problem of excessive CEO pay – sometimes even before a vote could be held. A resolution asking the insurance company Jefferson Pilot to establish a maximum ratio between highest and lowest-paid workers was withdrawn after the company agreed to raise all workers (including contract workers in food service, cleaning and security) to a living wage of $8.20 an hour. This resulted in a wage increase for 75 employees. Mattel shareholders withdrew their resolution calling for a review of executive severance pay policies in the wake of a $50 million payoff to fired CEO Jill Barad when Mattel agreed to report on the issue in its 2002 proxy statement. Similarly, the severance pay review resolution at Coca-Cola was withdrawn after the new CEO, Douglas Daft, wrote a public letter outlining the company's severance pay policies and personally committing to be rewarded for his successes, not his failures. Meanwhile, the resolutions at Household International drew wide press coverage, and a few months after the meeting, Household announced it would stop the predatory lending practice of selling single-premium credit insurance to homebuyers.

Appendix

Calculating CEO Pay: Throughout this report, we used *Business Week*'s method of calculating total compensation, which includes salary, bonus, and long-term compensation (i.e., value realized from the exercise of options, value of restricted stock awards, and long-term incentive payments in fiscal year 2000; does not include the value of unexercised option grants).

Table 2.1 Layoff Leaders

Company	CEO	Announced Layoffs	Date of Layoff	2000 Salary and Bonus ($000)	Change from 1999 (%)	2000 Long-Term Comp. ($000)	2000 Total Comp. ($000)
3Com	E. Benhamou	3,000	5/7/01	1,025	37	7,738	8,763
ADC Telecom.	W.J. Cadogan	4,000	3/27/01	2,744	150	43,108	45,852
Albertson's	G. Michael	1,600	7/18/01	1,522	-15	0	1,522
Amazon	J. Bezos	1,300	1/30/01	82	0	0	82
American Express	H. Golub	6,600	7/18/01	4,493	22	24,243	28,736
American Greetings	M. Weiss	1,500	3/27/01	801	-27	0	801
AOL Time Warner	S. Case	2,400	1/24/01	2,233	42	71,170	73,403
Charles Schwab	C.R. Schwab	3,400	3/22/01	8,901	-1	19,123	28,024
Cisco Systems	J. Chambers	8,500	4/16/01	1,323	40	155,980	157,303
Compaq	M.D. Capellas	8,500	3/1/01, 7/10/01	5,180	180	24,444	29,624
Conexant	D. Decker	1,500	3/26/01	1,619	107	24,009	25,628
Corning	R.G. Ackerman	1,000	7/9/01	2,555	9	29,611	32,166
Dell	M. Dell	5,700	2/01, 5/01	2,561	2	198,699	201,260
Delphi Automotive Systems	J.T. Battenberg III	11,500	3/29/01	4,068	19	1,765	5,833
Delta (Comair)	L. Mullin	2,000	4/27/01	3,064	76	0	3,064
Disney	M. Eisner	4,000	3/27/01	12,313	1,541	60,531	72,844
Dow Chemical	W.S. Stavropoulos	4,500	5/1/01	2,878	13	62	2,940
DuPont	C.O. Holliday Jr.	4,000	4/2/01	2,740	-2	0	2,740
Eastman Kodak	D.A. Carp	3,500	4/17/01	1,599	-13	409	2,008
EMC	M.C. Ruettgers	1,100	5/29/01	2,897	32	67,182	70,079
Exodus Communications	E. Hancock	1,750	7/26/01	1	-100	12,564	12,565
Gateway	J. Weitzen	3,000	1/11/01	1,880	25	4,595	6,475
Goodyear	S. Gibara	10,700	2/14/01	1,285	4	0	1,285
Hewlett-Packard	C. Fiorina	9,000	4/18/01, 7/26/01	2,971	354	749	3,720
Honeywell	M. Bonsignore	6,500	4/22/01	2,475	-20	10,446	12,921
Intel	C. Barrett	5,000	3/8/01	3,360	8	27,653	31,013
International Paper	J. Dillon	3,000	6/25/01	2,064	8	5,387	7,451
J.P. Morgan Chase	W.B. Harrison Jr.	5,000	1/1/01	6,281	1	4,507	10,788
JDS Uniphase	K.N. Kalkhoven	12,000	4/24/01, 7/26/01	738	57	106,171	106,909
Knight-Ridder	P. A. Ridder	1,700	6/18/01	1,400	-17	1,913	3,313
Level 3 Communications	J. Crowe	1,400	6/18/01	1,350	0	0	1,350
Lucent Technologies	R.A. McGinn	30,000	1/24/01, 7/24/01	1,237	-81	0	1,237
Mail-Well	P. Reilly	1,200	6/13/01	425	-32	0	425
Merrill Lynch	D.H. Komansky	1,000	4/23/01, 5/9/01	16,250	82	22,850	39,100
Morgan Stanley Dean Witter	P.J. Purcell	1,500	4/24/01	13,501	5	60,566	74,067
Motorola	C.B. Galvin	13,000	7/12/01, 3/13/01	2,531	-20	0	2,531
ON Semiconductors	S. Hanson	1,000	6/6/01	944	53	0	944
Polaroid	G. DiCamillo	2,950	6/13/01	946	-40	4,714	5,660
Rockwell International	D.H. Davis	1,000	6/27/01	2,230	-13	0	2,230
Sara Lee	C.S. McMillan	8,400	1/01, 4/26/01	2,055	16	4,800	6,855
Sears	A.J. Lacy	2,400	1/4/01	1,724	23	0	1,724
Silicon Graphics	R. Bishop	1,000	4/20/01	692	176	0	692
Sitel	J. Lynch	2,850	6/27/01	400	17	1,093	1,493
Solectron	K. Nishimura	20,800	3/01, 6/18/01	643	-60	0	643
Supervalu	M. Wright	4,500	4/4/01	1,701	-32	1,212	2,913
Texas Instruments	T.J. Engibous	2,500	4/17/01	2,096	-29	36,071	38,167
Textron	L.B. Campbell	3,600	1/23/01	3,055	27	1,518	4,573
Verizon Communications	C. Lee	10,000	2/7/01	4,199	41	12,476	16,675
Wachovia	L.M. Baker Jr.	7,000	4/15/01	1,045	-58	2,365	3,410
Whirlpool	D. Whitwam	6,000	1/24/01	1,931	-35	869	2,800
WorldCom	B. Ebbers	6,000	2/28/01	11,042	30	23,494	34,536
Xerox	P. Allaire	1,500	6/14/01	1,247	28	2,684	3,931
Average							**23,751**

Source: Press reports of layoff announcements; "Executive Pay," *Business Week,* April 16, 2001; proxy statements filed with the SEC.

Table 3.1 Corporate Tax Rebates and Changes in CEO Pay, 1996-98

Company (Companies with Pay Hike in **Bold**)	CEO	Tax Rebate ($000)	Prior Year CEO Pay ($000)	Current Year CEO Pay ($000)	Change in CEO Pay ($000)	Change in CEO Pay (%)	Business Week Avg Change in CEO Pay ($000)	Business Week Avg Change in CEO Pay (%)
1996								
Alcoa	P.H. O'Neill	17,600	10,603	7,674	-2,929	-28%	2,035	54%
Amerisource Health	J.F. McNamara	4,000	15,769	885	-14,884	-94%	2,035	54%
Ball	G.A. Sissel	7,200	832	702	-130	-16%	2,035	54%
Black & Decker	N.D. Archibald	2,200	4,505	9,454	4,949	110%	2,035	54%
Corporate Express	J. Rysavy	11,100	394	275	-119	-30%	2,035	54%
Enron	K.L. Lay	3,400	8,008	7,298	-710	-9%	2,035	54%
General Motors	J.F. Smith	395,400	5,604	6,112	508	9%	2,035	54%
Golden West Financial	M.O. & H.M. Sandler*	39,700	7,420	7,589	169	2%	2,035	54%
Goodyear	NA - CEO Change	-	-	-	-	-	-	-
Johns Manville (Schuller Corp.)	NA - CEO Change	-	-	-	-	-	-	-
Lehman Bros.	R.S. Fuld	20,700	4,950	6,785	1,835	37%	2,035	54%
MedPartners	L.R. House	-	Data NA	-	-	-	-	-
Phillips Petroleum	W.W. Allen	12,100	1,798	3,572	1,774	99%	2,035	54%
Praxair	H.W. Lichtenberger	7,100	1,979	15,503	13,524	683%	2,035	54%
WestPoint Stevens	H.T. Green	-	Data NA	-	-	-	-	-
1997								
Avon	J.E. Preston	4,500	5,866	6,915	1,049	18%	2,019	35%
Coca-Cola	R.C. Goizueta	72,000	16,070	111,833	95,763	596%	2,019	35%
Colgate-Palmolive	R. Mark	19,300	6,519	25,391	18,872	289%	2,019	35%
Corporate Express	J. Rysavy	2,100	275	338	63	23%	2,019	35%
El Paso Energy	W.A. Wise	56,000	5,677	413	-3,264	-57%	2,019	35%
IBM	L.V. Gerstner	266,000	10,332	14,799	4,467	43%	2,019	35%
Kmart	F. Hall	126,000	4,238	5,745	1,507	36%	2,019	35%
Ryder	M.A. Burns	30,000	787	3,364	2,577	327%	2,019	35%
Suiza Foods	G.L. Engles	13,100	630	1,100	470	75%	2,019	35%
Tenneco	D.G. Mead	133,000	5,206	2,296	-2,910	-56%	2,019	35%
Texaco	P.I. Bijur	572,000	4,524	5,542	1,018	23%	2,019	35%
Transamerica	F.C. Herringer	75,100	3,621	20,043	16,422	454%	2,019	35%
WestPoint Stevens	H.T. Green	800	1,870	1,960	90	5%	2,019	35%
1998								
Chevron	K.T. Derr	186,800	10,261	4,203	-6,058	-59%	2,800	36%
Colgate-Palmolive	R. Mark	19,600	25,391	52,703	27,312	108%	2,800	36%
CSX	J.W. Snow	102,100	7,813	5,275	-2,538	-32%	2,800	36%
Eaton	S.R. Hardis	18,000	3,410	3,534	124	4%	2,800	36%
El Paso Energy	W.A. Wise	3,000	2,413	3,353	940	39%	2,800	36%
Enron	K.L. Lay	12,500	3,342	21,555	18,213	545%	2,800	36%
General Motors	J.F. Smith	19,000	7,101	8,619	1,518	21%	2,800	36%
Goodyear	S.F. Gibara	33,200	3,091	2,834	-257	-8%	2,800	36%
J.P. Morgan	D.A. Warner	62,300	8,968	8,199	-769	-9%	2,800	36%
Lyondell Chemical	D.F. Smith	44,000	6,568	3,001	-3,567	-54%	2,800	36%
MCI Worldcom	B.J. Ebbers	112,600	17,966	8,104	-9,862	-55%	2,800	36%
McKesson	M.A. Pulido	1,000	2,498	7,039	4,541	182%	2,800	36%
MedPartners	NA - CEO Change	-	-	-	-	-	-	-
Northrop Grumman	K. Kresa	1,000	2,667	950	-1,717	-64%	2,800	36%
Owens & Minor	G.G. Minor	7,900	1,153	862	-291	-25%	2,800	36%
PepsiCo	R.A. Enrico	302,000	2,807	14,747	11,940	425%	2,800	36%
Pfizer	W.C. Steere	197,200	28,120	38,245	10,125	36%	2,800	36%
Phillips Petroleum	W.W. Allen	1,100	2,543	2,185	-358	-14%	2,800	36%
Ryder	M.A. Burns	16,400	3,364	1,641	-1,723	-51%	2,800	36%
Saks	R.B. Martin	7,900	3,726	9,706	5,980	160%	2,800	36%
Texaco	P.I. Bijur	67,700	5,542	6,151	609	11%	2,800	36%
Tosco	T.D. O'Malley	46,700	5,554	5,309	-245	-4%	2,800	36%
WestPoint Stevens	H.T. Green	1,200	1,960	2,306	346	18%	2,800	36%
Weyerhaeuser	NA – CEO Change	-	-	-	-	-	-	-
Total			**283,735**	**478,108**	**194,374**			
Average			**6,168**	**10,394**	**4,226**	**69%**	**2,396**	**38%**

* Co-CEOs. Pay data combined.

Source: Tax Rebates: Institute on Taxation and Economic Policy, *Corporate Income Taxes in the 1990s,* October, 2000. **CEO Pay:** Annual *Business Week* CEO Pay Surveys: April 22, 1996; April 21, 1997; April 20, 1998; and April 19, 1999; proxy statements filed with the SEC.

Table 3.2 Corporate Tax Rebates and CEO Pay, 1996-98

Company	CEO	Tax Rebate ($000)	CEO Pay ($000)	Business Week Average CEO Pay ($000)	CEO Pay as % of Business Week Average
1996					
Alcoa	P.H. O'Neill	17,600	7,674	5,781	133%
Amerisource Health	J.F. McNamara	4,000	885	5,781	15%
Ball	G.A. Sissel	7,200	702	5,781	12%
Black & Decker	N.D. Archibald	2,200	9,454	5,781	164%
Corporate Express	J. Rysavy	11,100	275	5,781	5%
Enron	K.L. Lay	3,400	7,298	5,781	126%
General Motors	J.F. Smith	395,400	6,112	5,781	106%
Golden West Financial	M.O. & H.M. Sandler*	39,700	7,589	5,781	131%
Goodyear	S.F. Gibara	35,800	2,394	5,781	41%
Johns Manville (Schuller Corp.)	C.L. Henry	400	3,035	5,781	52%
Lehman Bros.	R.S. Fuld	20,700	6,785	5,781	117%
MedPartners	L.R. House	8,400	4,198	5,781	73%
Phillips Petroleum	W.W. Allen	12,100	3,572	5,781	62%
Praxair	H.W. Lichtenberger	7,100	15,503	5,781	268%
Westpoint Stevens	H.T. Green	500	1,870	5,781	32%
1997					
Avon	J.E. Preston	4,500	6,915	7,800	89%
Coca-Cola	R.C. Goizueta	72,000	111,833	7,800	1434%
Colgate-Palmolive	R. Mark	19,300	25,391	7,800	326%
Corporate Express	J. Rysavy	2,100	338	7,800	4%
El Paso Energy	W.A. Wise	56,000	2,413	7,800	31%
IBM	L.V. Gerstner	266,000	14,799	7,800	190%
Kmart	F. Hall	126,000	5,745	7,800	74%
Ryder	M.A. Burns	30,000	3,364	7,800	43%
Suiza Foods	G.L. Engles	13,100	1,100	7,800	14%
Tenneco	D.G. Mead	133,000	2,296	7,800	29%
Texaco	P.I. Bijur	572,000	5,542	7,800	71%
Transamerica	F.C. Herringer	75,100	20,043	7,800	257%
WestPoint Stevens	H.T. Green	800	1,960	7,800	25%
1998					
Chevron	K.T. Derr	186,800	4,203	10,600	40%
Colgate-Palmolive	R. Mark	19,600	52,703	10,600	497%
CSX	J.W. Snow	102,100	5,275	10,600	50%
Eaton	S.R. Hardis	18,000	3,534	10,600	33%
El Paso Energy	W.A. Wise	3,000	3,353	10,600	32%
Enron	K.L. Lay	12,500	21,555	10,600	203%
General Motors	J.F. Smith	19,000	8,619	10,600	81%
Goodyear	S.F. Gibara	33,200	2,834	10,600	27%
J.P. Morgan	D.A. Warner	62,300	8,199	10,600	77%
Lyondell Chemical	D.F. Smith	44,000	3,001	10,600	28%
MCI Worldcom	B.J. Ebbers	112,600	8,104	10,600	76%
McKesson	M.A. Pulido	1,000	7,039	10,600	66%
MedPartners	E.M. Crawford	400	3,788	10,600	36%
Northrop Grumman	K. Kresa	1,000	950	10,600	9%
Owens & Minor	G.G. Minor	7,900	862	10,600	8%
PepsiCo	R.A. Enrico	302,000	14,747	10,600	139%
Pfizer	W.C. Steere	197,200	38,245	10,600	361%
Phillips Petroleum	W.W. Allen	1,100	2,185	10,600	21%
Ryder	M.A. Burns	16,400	1,641	10,600	15%
Saks	R.B. Martin	7,900	9,706	10,600	92%
Texaco	P.I. Bijur	67,700	6,151	10,600	58%
Tosco	T.D. O'Malley	46,700	5,309	10,600	50%
WestPoint Stevens	H.T. Green	1,200	2,306	10,600	22%
Weyerhaeuser	S.R. Rogel	9,500	1,711	10,600	16%
Total		**3,208,600**	**495,105**		
Average			**9,521**	**8,510**	**112%**

* Co-CEOs. Pay data combined.

Sources: Tax Rebates: Institute on Taxation and Economic Policy, *Corporate Income Taxes in the 1990s,* October, 2000. **CEO Pay:** Annual *Business Week* CEO Pay Surveys: April 22, 1996; April 21. 1997; April 20, 1998; and April 19, 1999; and proxy statements filed with the SEC.

Endnotes

1. Investors would have done well to be more vigilant. A study released in April, 2001 by United for a Fair Economy found that if someone invested $10,000 in the company with the highest paid CEO on December 31, 1993, held it for a year, then sold it to buy stock in the next year's pay leader and so on, by the end of 1999, the $10,000 investment would have eroded to $3,585. A $10,000 investment in the S&P500 over the same period would have grown to $32,301, more than nine times the pay leaders' portfolio. See Scott Klinger, "The Bigger They Come, the Harder They Fall," United for a Fair Economy, April 6, 2001.
2. Geoffrey Colvin, "The Great CEO Pay Heist," *Fortune*, June 25, 2001.
3. Carol Loomis, "This Stuff is Wrong," *Fortune*, June 25, 2001.
4. Laura S. Unger, "This Year's Proxy Season: Sunlight Shines on Auditor Independence and Executive Compensation," remarks at the Center for Professional Education, Inc., Washington, D.C., June 25, 2001.
5. Jennifer Gill, "We're Back to Serfs and Royalty," *Business Week*, April 9, 2001.
6. Heather Boushey et.al., *Hardships in America: The Real Story of Working Families*, Economic Policy Institute, July 2001.
7. *Denver Post*, July 6, 2001.
8. The layoff leaders were compiled through a search of press coverage of job cut announcements, which means that firms that did not publicly announce the layoffs or were not covered in the media are excluded from the list. Unfortunately, the U.S. government does not publish a listing of company-specific layoffs. (Although the 1989 WARN Act technically requires companies to give workers notice of mass layoffs, the law is riddled with loopholes and state privacy laws in some cases make the information difficult to obtain.) The study also excludes firms in which there was a CEO change between 1999 and 2000 and those for which no compensation data were available.
9. Throughout this report, we used *Business Week*'s method of calculating total compensation, which includes salary, bonus, and long-term compensation (i.e., value realized from the exercise of options, value of restricted stock awards, and long-term incentive payments in fiscal year 2000; does not include the value of unexercised option grants).
10. *New York Times*, April 1, 2001.
11. *New York Times*, Nov. 17, 2000.
12. Reuters, Feb. 1, 2001.
13. *New York Times*, August 1, 2001.
14. These include: Dow Chemical, which purchased Union Carbide, International Paper, which consumed Champion International; Chase Manhattan, which purchased J.P. Morgan; Verizon, which merged with GTE, and Wachovia, which was purchased by First Union. In addition, Honeywell claimed losses due to the planned but controversial merger with General Electric.
15. Kenneth P. De Meuse, Paul A. Vanderheiden, and Thomas J. Bergmann, "Announced Layoffs: Their Effect on Corporate Financial Performance," *Human Resource Management*, Winter 1994.
16. American Management Association, "1994 AMA Survey on Downsizing."
17. *Denver Post*, April 1, 2001.
18. CEO pay data from the 41st company, Bestfoods, was unavailable by the date of publication. Bestfoods received a $4.7 million tax rebate in 1996.
19. Robert S. McIntyre and T.D. Coo Nguyen, *Corporate Income Taxes in the 1990s*, Institute on Taxation and Economic Policy, October 2000. Employees exercising stock options must report the difference between the value of the stock and what they pay for it as wages on their personal income tax returns.
20. Mcintyre and Nguyen.

21. The companies receiving outright tax rebates are found in different quantities in different years, and some companies received rebates in more than one year. To facilitate comparison with the *Business Week* averages across three years, we weighted the *Business Week* group to conform to the yearly distribution of the tax rebate companies. Since the largest *Business Week* raise in percentage terms was in 1996, a year with relatively few tax rebate companies, our weighting adjustment reduced the three-year average *Business Week* raise from 42% to 38%.
22. Since more tax rebate companies appear in 1998, when average CEO pay was higher, our weighting adjustment raises slightly the three-year average *Business Week* salary from $8.06 million to $8.51 million.
23. Mcintyre and Nguyen.
24. "Executive Pay," *Business Week,* April 19, 1999.
25. Jennifer Laudano, *Off the Charts: Pay, Profits, and Spending in Drug Companies,* Families USA, July 10, 2001.
26. Colvin.
27. McIntyre and Nguyen.
28. "Executive Pay," *Business Week,* April 20, 1998.
29. McIntyre and Nguyen.
30. "Executive Pay," 1998.
31. McIntyre and Nguyen.
32. "Executive Pay," 1999.
33. Eyal Press, "Texaco on Trial," *The Nation,* May 31, 1999, citing Judith Kimerling, *Crudo Amazonico*.
34. McIntyre and Nguyen; "Executive Pay," 1998; and "Executive Pay," 1999.
35. *Los Angeles Times*, Sept. 21, 1995.
36. $22,094 and $22,994 for 1997 and 1998, respectively. Computed with data gathered by Bureau of Labor Statistics for the average production / non-supervisory worker.
37. Provided in 1998 by the outplacement firm Challenger, Gray, & Christmas. Smith's pay in 1997 rose from $6.1 million to $7.1 million.
38. Based on data presented in "EPI DataZone – National Data: Hourly wages by occupation, 1973-2000", from *The State of Working America 2000-01*. Web site data updated May 2001 (www.epinet.org).
39. *Business Week*, April 23, 2001, pp. 70-71.
40. Calculated from figures in *Business Week*, April 23, 2001, April 16, 2001, and April 1, 2001.
41. Jared Bernstein and Chauna Brocht, "The Next Step: The New Minimum Wage Proposals and the Old Oppostion," Economic Policy Institute Issue Brief #130B, March, 2000; and Jared Bernstein and John Schmitt, *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase,* Economic Policy Institute, 1998.
42. For a good survey of the impact of minimum wage legislation, see Robert Pollin and Stephanie Luce, *Toward a Living Wage: Building a Fair Economy,* The New Press, 1998.
43. ACORN Living Wage Resource Center, www.livingwagecampaign.org.
44. See, for example, Diana Pearce and Jennifer Brooks with Laura Henze Russell, *The Self-Sufficiency Standard for Massachusetts*, Wider Opportunities for Women, September 1998; and other self-sufficiency studies by Wider Opportunities for Women.
45. Karen Kraut, Scott Klinger, and Chuck Collins, *Choosing the High Road: Businesses That Pay a Living Wage and Prosper,* Responsible Wealth, 2000.
46. Preamble Center, "Corporate Irresponsibility: There Ought to Be Some Laws," July 1996. Polling conducted by Ethel Klein, EDK Associates and Guy Molyneux of Peter D. Hart Associates.
47. Institute for Policy Studies, with assistance from Ralph Estes of American University. As cited in "CEOs Win, Workers Lose," Institute for Policy Studies and United for a Fair Economy, May 1997; and " CEOs Gain From Massive Downsizing," IInstitute for Policy Studies and United for a Fair Economy, April, 1998.

Resources

CEO Pay Studies from UFE and IPS

The CEO pay studies listed below are available online at www.FairEconomy.org:

The Bigger They Come, The Harder They Fall, April 6, 2001. A seven-year survey of the dismal financial return to investors in companies with high CEO pay.

Executive Excess 2000 (Seventh Annual Executive Compensation Survey), August, 2000. Updates the decade-long trends in CEO pay, charts the explosion in executive pay at dot-com companies, and highlights the huge, and growing gap in pay between private-sector CEOs and their counterparts in the federal government.

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

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

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

Other Publications

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

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

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

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

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