CEO Compensation in Corporate America C:\history\ten\ceo\ceocomp.3	
1. CEO Compensation. What about the CEOs of 23 large U.S. companies under investigation for accounting irregularities? They made 70 percent more - a whopping $62 million from 1999 to 2001 - according to a report released last week by United for a Fair Economy and the Institute for Policy Studies. Compare that with a median, household income of $42,000 and realize that it's going to take the typical American family about 1,475 years to net what these guys bagged for blowing up companies. Al Lewis, *Denver Post* business editor, "Labor Creates All Wealth: Labor Love All But Lost," *Denver Post,* September 1, 2002, 1K.	Main Ideas: Key Words: Analysis:
The corporations in this study are now household names, particularly at households with 401(k)s: Adelphia, AOL, Time Warner, Bristol Myers-Squibb, CMS Energy, Duke Energy, Dynegy, El Paso, Enron, Global Crossing, Halliburton, Hanover Compressor, Homestore, Kmart, Lucent Technologies, Mirant, Network Associates, Peregrine Systems, PNC Financial Services, Reliant Energy, Qwest, TYCO, WorldCom and Xerox. Al Lewis, 1K.	
"Collectively, the CEOs at firms under investigation pocketed $1.4 billion from 1999 to 2001," the study says. "While these executives are cushioned by the vast wealth they have accumulated, their shareholders and employees are dealing with massive losses. Between January 2000 and July 2002, the value of shares at these firms plunged by $530 billion - about 73 percent of their total value." Al Lewis, 1K.	
These horrendous examples help push the pay gap between all U.S. CEOs and workers to 411-to-1. In the early 1980s, the so-called decade of greed, the CEO-worker gap was 42-to-1. Al Lewis, 1K.	
Now we learn that our hyper-incentivized managers were just grooming our companies for ill-conceived deals that would only result in bad customer service, devastated investors, layoffs, ungodly debt loads and bankruptcies. Al Lewis, 1K.	

Corporate America has been engaged, in fact, in human history's most costly incentive experiment ever. This experiment has, since the early 1980s, awarded America's top corporate executives over half a trillion dollars.[2] Sam Pizzigati, *Greed and Good: Understanding and Overcoming the Inequality That Limits Our Lives* (New York: Apex Press, 2004), 6. 2 Roy C. Smith, a former Wall Street investment banker, has calculated that about 1 percent of the $10.6 trillion gain in total stock market value from 1980 through 1998 was paid to CEOs of publicly traded companies. He adds another $200 to $300 billion, the value accumulated by other senior managers. "Altogether a third to half a trillion dollars," Smith concludes, "has passed into the hands of . . . managers of publicly traded companies." Roy C. Smith, *The Wealth Creators: The Rise of Today's Rich and Super-Rich* (New York: St. Martin's Press, 2001), 240. Adding into that total the incentive income handed executives since 1998 – and factoring in the incomes that have gone to top executives in privately held companies – would easily nudge Smith's total over the half-trillion mark.	

2. International Comparisons. Chuck Collins, study co-author, founder of United for a Fair Economy and an heir to the Oscar Mayer meat empire, notes that Fortune 500 CEOs earned $625,000 on average in 1980, or about 45 times what their workers made. Today a big-company CEO makes 419 times - $10.6 million on average - what U.S. workers make and even heads of mid-sized U.S. companies, with an average 1.07 million a year in pay, draw more than twice what CEOs bank in Canada, Germany or Japan. The study uses Business Week's 49-year-old annual survey of CEO pay as its benchmark. Business Week's latest tally ranks Eisner first for 1998 with $5.76 million in salary and another $569.8 million in stock options for a total of $575.6 million. Mary Deibel, Scripps Howard News service, "CEO Pay Packages Examined In Study," *Rocky Mountain News,* August 30, 1999, 2A.	Main Ideas: Key Words: Analysis:
Our industrial competitors did a much better job in the last decade than American business executives in building up their companies, earning increased market share, and enhancing their profits. This happened despite the fact that they do not pay their corporate executives nearly as much. Corporations in Europe and Japan pay their CEOs at a more sensible rate. In 1990, the average CEO of an American manufacturing company with an annual revenue of $250 million was paid $633,000 in salary and other compensation.[152] This was two-thirds more than the	

second place average, which went to CEOs of comparable German companies and over twice as high as what typical Japanese executives earn ($308,000). Denny Braun, Sociologist from Mankato State University, *The Rich Get Richer: The Rise of Income Inequality in the United States and the World* (Chicago, Illinois: Nelson-Hall Publishers, 1997), 35. 152. John Burgress, "The Latest American Export: Higher Executive Salaries are Showing Up Abroad," *Washington Post National Weekly Edition,* October 28-November 3, 1991, 25.	
A European corporation's chief executive officer typically receives pay six to eight times that of an entry-level professional employee.[155] Put simply, most European and Japanese managers believe that an organization suffers when the CEO receives an astronomical multiple of the average employee's pay. Denny Braun, 35. 155. David Kirkpatric, "Abroad, It's Another World," *Fortune,* June 1988, 78.	

3. Germany. In 1998, Daimler-Benz, at the time the merger was announced, outpaced Chrysler by every standard corporate measure. Daimler-Benz raked in considerably more revenue than Chrysler. Daimler-Benz also generated considerably higher profits. But executives at Chrysler, remarkably, took home considerably bigger paychecks than their German counterparts.[76] In 1997, Daimler Chairman Juergen Schrempp earned an estimated $2.5 million. Chrysler Chairman Robert Eaton that same year made over six times more, $16 million. Chrysler's top five executives, together, collected $50 million in compensation in 1997. Daimler's top ten executives pulled in only $11 million.[77] Sam Pizzigati, 63. 76 Adam Bryant, "Raising the Stakes: American Pay Rattles Foreign Partners," *New York Times,* January 17, 1999. 77 Greg Steinmetz and Gregory L. White, "Chrysler's Executive Pay Draws Fire from Overseas," *Wall Street Journal,* May 26, 1998.	Main Ideas: Key Words: Analysis:
By 1985, not surprisingly, only 17 percent of America's civilian wage and salary employees belonged to unions. In Germany, that same year, 40 percent of employees belonged to unions.[34] But even these figures understated the incredibly wide difference between union influence in the United States and union influence in Europe. In the United States, unions typically bargain contracts that apply only to the employees of a specific employer. In	

Europe, unions typically bargain collective wage agreements that apply to entire industries. At century's end, just 14 percent of workers in the United States were covered by union-negotiated wage agreements. The coverage rate in France, Germany, and Belgium: 90 percent." Sam Pizzigati, 203. 34 Clara Chang and Constance Sorrentino, "Union Membership Statistics in 12 Countries," *Monthly Labor Review,* December 1991.	
In 1997, wealthy taxpayers in the United States paid, on paper, 39.6 percent of their income over $263,750 in national income taxes. The top marginal tax rate in Germany that year ran 53 percent. The top rate in France: 57 percent.[37] Sam Pizzigati, 203. 37 Leon Friedman, "A Share-the-Wealth Tax," *Nation,* January 6, 1997.	
In 1995, the wages and benefits of manufacturing workers in the United States, once the world's highest, ranked thirteenth in the world. German workers pulled in the equivalent of $31.88 in wages and benefits in 1995, American workers only $17.20. Workers from throughout Western Europe - from Switzerland, Belgium, Austria, Finland, Norway, Denmark, the Netherlands, Sweden, Luxembourg, and France - all outpaced American manufacturing workers.[42] Sam Pizzigati, 204. 42 U.S. Wages Slip to 13th Place, Press Associates, Inc., December 9, 1996.	
In 2000, according to U.S. Bureau of Labor Statistics data, hourly compensation costs for manufacturing workers in the United States still averaged 17 percent less than costs in the former West Germany.[43] And that was after adjusting the figures to dollar equivalencies, a statistical move that exaggerated compensation in the United States, because the value of the dollar has risen considerably against other currencies. Sam Pizzigati, 204. 42 U.S. Wages Slip to 13th Place, Press Associates, Inc., December 9, 1996.	

4. Japan. In 2000, the average pay for all the CEOs of companies listed on the New York Stock Exchange more than tripled the average pay of the top executives of all the companies listed on the Tokyo Stock Exchange. The Japanese executives averaged between $300,000 and $500,000. The U S average: $1.5 million.[78] Sam Pizzigati, 63.	Main Ideas: Key Words: Analysis:

78 Ken Belson, "Learning How to Talk About Salary in Japan," *New York Times,* April 7, 2002.	
In Japan, people at the top tenth of the income ladder made just over four times more than people at the bottom.[199] Just 2 percent of Japanese households, in 1997, lived on less than $16,000 a year - and the exact same percentage, only 2 percent, made more than $160,000. Most Japanese families, over half, lived right in the middle on between $35,000 and $75,000 a vear.[200] Sam Pizzigati, 233. 199 The Japanese figure represents the ratio between someone at the 90th, percentile of the income distribution and someone at the 10th percentile. In 1992, people at the 90th, percentile made 4.17 times the income of people at the 10th percentile. See Figure 1. Decile Ratios and Gini Coefficient for Adjusted Disposable Income, from Timothy M. Smeeding with assistance from Andrzej Grodner, Luxembourg Income Study Working Paper No. 252 Changing Income Inequality in OECD Countries: Updated Results from the Luxembourg Income Study (LIS), March 2000. Accessed from www.lisproject.org/publications/liswps/252.pdf 200 Ken Sullivan, "Japanese Question Economic Equality," *Washington Post,* May 4, 1997.	
The American army of occupation would help drive the equalizing process, by breaking up Japans massive rural estates and sharing the land with average farmers.[202] Japan's new lawmakers would do their part as well. They taxed the wealthy at stiff rates and stretched a well-knit safety net for the poor.[203] Even Japanese business leaders, prodded by labor and public opinion, made important contributions to a more equal Japan. Their companies offered workers lifetime job security. Sam Pizzigati, 233. 202 Steven C. Clemons, "Sharing, Alaska-Style," *New York Times,* April 9, 2003. 203 Ken Sullivan, "Japanese Question Economic Equality," *Washington Post,* May 4, 1997.	

5. Justification. Eisner and the other four best-paid CEOs - Mel Karmazin of CBS, Sanford Weill of Citigroup, Steve Case of America Online and Craig Barrett of Intel - split $1.2 billion by *Business Week's* reckoning, prompting the magazine to ask if such pay packages are "outrageous" when the U.S. economy has put in its best performance in decades. Mary Deibel, 2A.	Main Ideas: Key Words: Analysis:
Business Week concluded, when, "Thanks to (stock) options, the link between (executive) pay and performance, at least as measured by the stock market, has	

never been tighter." Stock options give chosen workers the right to buy the company's stock at a given price at a given time. The idea is to get these employees - especially top executives - to act like owners and reward them with pay when they perform accordingly. Mary Deibel, 2A.	
"The ability of high-tech companies to grow and acquire new technologies and compensate employees through stock options are important factors driving U.S. economic expansion – economic growth that's the envy of the world," says Roberta Katz, head of TechNet, the computer industry's lobbying arm and political action committee. Mary Deibel, 2A.	

6. Productivity. Others - including some longtime champions of stock options as a way to tie CEO performance to pay - argue that options have been overdone to the point that shareholders are seeing value siphoned off needlessly to lackluster executives by cronies on the board who hope the favor will be returned in kind. Mary Deibel, 2A.	Main Ideas: Key Words: Analysis:
Corporate governance expert Nell Minow, a principal in the Washington money-management firm of LENS Inc. and a longtime believer in stock options, says they should be used when executives act like owners and return value to shareholders on their investment. But she says options should be used selectively and not to reward executives unless their stock outperforms the broader market by some neutral index. To reward managers for simply mirroring market performance - or not even doing as well, she says - "amounts to grading everybody on the curve. These are big boys; they don't need it." Mary Deibel, 2A.	
Rewards like these began blurring the economic divisions between top managers of major corporations and entrepreneurial, capitalist founders or owners. Chief executives were becoming more like owners, as their compensation-in theory, at least-reflected corporate success. Yet the correlations were erratic. Heads of money-losing companies were adding only a little less income than the stewards of high-achieving firms. Kevin Phillips was chief political analyst for the 1968 Republican presidential campaign and later served as assistant to the attorney general. Since 1971 he has been the editor-publisher of The *American Political Report.* Since 1979 he has also edited and published the *Business and Public Affairs Fortnightly.* Phillips is a contributing columnist to the *Los Angeles Times,* a member of the	

political strategists' panel of The *Wall Street Journal,* and a regular commentator for National Public Radio and CBS Radio Network. Kevin Phillips, *The Politics of Rich and Poor: Wealth and the American Electorate in the Reagan Aftermath* (New York: Random House, 1990), 178.	
In the 1970s . . . in industry after industry, American corporations were losing market share to foreign competitors. Profits were dipping, share prices stagnating. By 1980, many investors had come to agree, "a great many American companies were in a sorry state and in need of serious restructuring."[5] Sam Pizzigati, 7. 5 Roy C. Smith, *The Wealth Creators: The Rise of Today's Rich and Super-Rich* (New York: St. Martin's Press, 2001), 21-22.	
Executives, the new conventional wisdom held, would only maximize that value if they saw themselves, first and foremost, as shareholders themselves, as part of ownership, not just the hired help.[9] Incentives in corporate America would now link executive rewards, directly, to share price. Sam Pizzigati, 8. 8 This discussion on corporate raiders and their impact on mainstream corporate America draws from Wall Street investment banker Roy C. Smith's eyewitness perspective. See Roy C. Smith, *The Wealth Creators: The Rise of Today's Rich and Super-Rich* (New York: St. Martin's Press, 2001), 23-24 and 91-94.	
In the 1980s, the prince of pay would have plenty of amply compensated company. CEO pay overall jumped 212 percent over the decade, at the same time corporate profits were rising only 78 percent.[22] Sam Pizzigati, 10. 22 Craig Cox and Sally Power, "Executive Pay: How Much Is Too Much?" *Business Ethics,* September-October 1991.	
In the decades right after World War II, the United States systematically invested in infrastructure, in everything from sewage to cyclotrons, and the nation would become substantially more productive. In the closing decades of the twentieth century, the nation would shortchange these investments. In the 1970s, federal spending on infrastructure averaged over 2.5 percent of the nation's gross domestic product. By the late 1990s, that share had dropped to just 1.5 percent, an investment shortfall that equaled hundreds of billions of dollars - and amounted to a huge drag on technological progress.[96] Sam Pizzigati, 213. 96 Included here are investments in education and research as well as physical infrastructure. Barry Bluestone and Bennett Harrison,	

Growing Prosperity (Boston: Houghton Mifflin Company, 2000), 240.	

7. Curbs. Congress has tried before to use the tax code to rein in excess executive pay, without much success, and little chance is given to a proposal by Rep. Martin Olav Sabo, D- limit tax write off for executive pay to 25 times the wages of lowest-paid company employee. Mary Deibel, 2A.	Main Ideas: Key Words: Analysis:
Thanks to the way Congress writes the rules, pension accounting has a lot in common with Enron accounting, but with one exception: it's perfectly legal. By adjusting the arcane formulas used to calculate pension assets and obligations, corporate accountants can turn a drastically underfunded system into a financially healthy one, even inflate a company's profits and push up its stock price. Ethan Kra, chief actuary of Mercer Human Resources Consulting, once put it this way: "If you used the same accounting for the operations side [of a corporation] that is used on pension funds, you would be put in jail." Donald L. Barlett and James B. Steele, "The Broken Promise," *Time* magazine (October 31, 2005), 44.	
Policy decisions by Congress favoring corporate and special interests over workers will drive millions of older Americans-a majority of them women-into poverty, push millions more to the brink and turn retirement years into a time of need for everyone but the affluent. The transition is well under way, eroding efforts of the past three decades to eliminate poverty among the aging. Donald L. Barlett, 38.	
Congress's role has been pivotal. Lawmakers wrote bankruptcy regulations to allow corporations to scrap the health insurance they promised employees who retired early-sometimes voluntarily, quite often not. They wrote pension rules that encouraged corporations to underfund their retirement plans or switch to plans less favorable to employees. They denied workers the right to sue to enforce retirement promises. They have refused to overhaul America's health-care system, which has created the world's most expensive medical care without any comparable benefit. Donald L. Barlett, 38.	
Washington has a rich history of catering to special and corporate interests at the expense of ordinary citizens. Nowhere is this more evident than in legislation dealing with company pensions. It has been this way since 1964, when carmaker Studebaker Corp. collapsed after 60 years, junking the promised pensions of 4,000 workers not yet	

eligible for retirement, pensions the company had spelled out in brochures for years: "You may be a long way from retirement age now. Still, it's good to know that Studebaker is building up a fund for you, so that when you reach retirement age you can settle down on a farm, visit around the country or just take it easy, and know that you'll still be getting a regular monthly pension paid for entirely by the company." Donald L. Barlett, 42.	