CEO Greed and Inequality

Wonder why your pay isn't going up while your boss keeps getting richer and richer each year?

You're not alone.

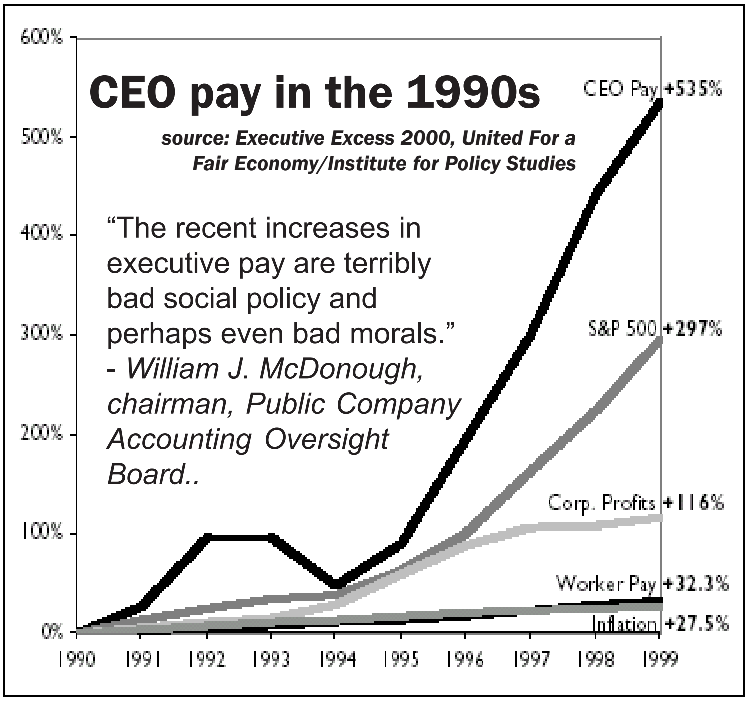
In 1982, the average CEO earned 42 times the average worker. By 2001, the ratio had ballooned to 411-to-1.

To put that in perspective, by late-afternoon on January 1, the top executive has already earned more than the average worker will the entire year.

If annual pay for workers had grown at the same rate since 1990 as it did for executives, it would be $100,156 instead of $25,467.

If minimum wage, which stood at $3.80 an hour in 1990, rose at the same rate it would have been $21.41 an hour in 2001.

source: Executive Excess 2000, United For a Fair Economy/Institute for Policy Studies



A time of growing inequality

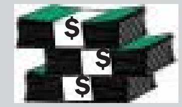
While corporate executives keep getting richer, the wealth gap keeps growing, reaching levels not seen since 1929, the year the Great Depression began:

In 1979, the top 1% of Americans controlled 20.5% of America's wealth.

Today, the top 1% of Americans control 38% of America's wealth.

*Meanwhile, approximately **30% of all workers are now in jobs paying poverty-level wages** and the poorest 40% of Americans control just 0.2% of America's wealth.*

Top Paid CEOs, 2002



(in millions)

Alfred Lerner, *MBNA*	**$194.9**
Jeffrey Barbakow, *Tenet Healthcare*	**$116.6**
Millard Drexler, *GAP*	**$91.0**
Dennis Kozlowski, *Tyco International*	**$71.0**
Irwin Jacobs, *Qualcomm*	**$63.3**
Charles Cawley, *MBNA*	**$48.6**
Robert Kotick, *Activision*	**$43.3**
Ralph Roberts, *Comcast*	**$39.8**

source: Business Week, April 21, 2003

"Hey, but don't they deserve it?"

Corporate apologists like to claim that CEOs are paid so well because they bring value to the corporations they run.

Don't believe them.

The CEOs who make the most are actually often the least deserving. For example, CEOs at 23 firms under investigation for accounting practices earned $62.2 million from 1999-2001, 70 percent more than the $36.5 million other top executives averaged during that period.

CEOs who cut the most jobs are also often the most highly rewarded.

"We've looked at 75 years of company data and never found the slightest correlation between executive compensation and company performance." - *Jim Collins, author "Good to Great," which emerged from a five-year study of 1,435 major corporations.*

"Executive Compensation has become too 'delinked' from long-term performance goals in many corporations." - *report of the Conference Board, a pro-business networking and research group.*

What about other industrialized nations?

Among highly industrialized nations, the U.S. is an aberration. In Switzerland, top executives make only 14 times the rate of what their employees make. The ratio in Japan is about 20-to-1; in England it is about 35-to-1.

For more information, visit Citizen Works at http://www.citizenworks.org or call 202-265-6164.

Last updated May 2003

CEO Greed and Inequality

Stock Options: The Steroids of Corporate Greed

For most executives, the vast majority of pay comes in the form of stock options. "Options" means that whenever an executive wants, the company will print him company stock, which he can then sell on the open market.

Since stock options are tax-deductable and do not count as an expense on financial statements, they have flowed like water in the boardrooms of many corporations.

With boatloads of options in hand, executives have naturally focused on the share price (the higher it gets, the more they make). As a result, many executives engaged in all kinds of accounting tricks and false financial reporting to keep the stock price high, selling off big-time when they run out of tricks.

CEOs like to argue that since most employees get stock options, everybody benefits.

Yes, many employees do get options, but according to the National Center for Employee Ownership, a whopping 80% of all stock option value is concentrated in the hands of senior executives. And while employees are often kept in the dark about the financial health of their company, senior executives know exactly when to sell.

Between 1997 and 2000, stock options awarded to top management more than tripled, growing from $50 billion in 1997 to $162 billion in 2000.

Does the corporate structure promote inequality?

What is a corporation? It's a legal construction whereby the owners "rent" employees and managers to produce a product or service. Then the owners sell that product and receive the surplus value, though they have done nothing themselves to produce the product or service.

If employees were part-owners of corporations, they too would benefit from company profits. As long as they are not, the owners will get richer at the expense of the workers.

When companies tank, executives cash out

So, your company is going bankrupt. The stock price is freefalling. You're losing everything.

Don't look for sympathy from the top brass.

According to a *Financial Times* survey of the 25 largest U.S. bankruptcies since January of 2001, 181 executives and 27 directors sold at least $1 million apiece in shares between 1999 and 2001. One-in-four — 52 of them — grossed more than $10 million. In total, the 208 "barons of bankruptcy" made off with $3.3 billion (see *Financial Times*, "Barons of Bankruptcy" 7/31/02-8/02/02).

As for those companies who didn't go bankrupt, but just lost more than 75% of their stock value, executives and directors did quite well there, too. *Fortune* magazine examined 1,035 such companies and found executives and directors there made a combined $66 billion in stock sales (more than the budget for the entire state of Illinois — $52.8 billion). At the greediest 25 companies, $23 billion went to just 466 insiders. (see Fortune, "The Greedy Bunch — You bought, they sold," 9/2/02).

When asked, 87% of U.S. adults believe that most top company managers are paid more than they deserve and that they become rich at the expense of ordinary workers.

source: Harris Ineractive Poll, October 18, 2002

What can we do?

- Cap CEO pay by passing a law that would prevent companies from getting a tax deduction for executive pay more than 25 times greater than that of the average employee. That's even more than the 20-to-1 ratio recommended by arch-capitalist J.P. Morgan and management guru Peter Drucker.
- Require companies to expense stock options and take the steroids out of corporate greed.
- Enact a "golden parachute" excise tax, which will apply to executives who cash out before a stock plunge or a bankruptcy.
- Support ACORN's living wage campaign to help bring up the ratio from the bottom.

RESOURCES:

United for a Fair Economy, http://www.faireconomy.org
AFL-CIO Executive Pay Watch, http://www.aflcio.org/
ACORN Living Wage Campaign, http://www.acorn.org/
Economic Policy Institute, http://www.epinet.org/
Jobs With Justice, http://www.jwj.org/

For more information, visit Citizen Works at http://www.citizenworks.org or call 202-265-6164.

Last updated May 2003