NOTES

INTRODUCTION

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[127] Ibid.

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[131] Arthur B. Kennickell, A Rolling Tide: Changes in the Distribution of Wealth in the U.S., 1989-2001, Federal Reserve Board, March 3, 2003. Accessed from www.federalreserve.gov/pubs/oss/oss2/-scfindex.html. In 2001, America's top 1 percent held 32.7 percent of the nation's net worth, the bottom 90 percent only 30.2 percent (Table 5). The top 1 percent's share equaled $13,849.2 billion, the bottom 90 percent's $12,775.9 billion. But this top 1 total, drawn from the Federal Reserve's triennial Survey of Consumer Finances, does not tally the wealth of America's richest households, the families of the *Forbes* 400. In 2001, Kennickell's piece points out, the *Forbes* 400 alone owned nearly a trillion dollars worth of wealth (Table 1).

[132] The phrase comes from economists Gary Burtless and Timothy Smeeding. Smeeding has been the overall director of the Luxembourg Income Study, a project that has been comparing incomes in developed countries since 1983. Gary Burtless and Timothy Smeeding, America's Tide: Lifting the Yachts, Swamping the Rowboats, *Washington Post*, June 25, 1995. A project update, published in March 2000, concluded: "Measures of social distance and overall inequality indicate that the United States has the most unequal distribution of adjusted household income among all 21 countries covered in this study, while Sweden has the most equal." Timothy M. Smeeding, Luxembourg Income Study Working Paper No. 252, Changing Income Inequality In OECD Countries: Updated Results from the Luxembourg Income Study. March 2000. Accessed from http://lisweb.ceps.lu/publications/liswps/-252.pdf22.

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WHY WE NEED INEQUALITY

[1] Benson holds the Simon S. Selig Jr. Chair for Economic Growth at the university's Terry College of Business. P. George Benson, In Defense of Wealth, *Georgia Trend*, April 2001.

GREED AS AN INCENTIVE

[1] Rationalizers of inequality, notes economist Gary Becker, "argue that wage and income disparities must sometimes widen to send correct signals to people to save more, work harder, change jobs, or get a better education." Poor people, by this reasoning, will actually enjoy better lives "in a society where income disparities are permitted to widen than one where law and social convention keep income differentials small." Gary Burtless, Growing American Inequality, *Brookings Review*, December 22, 1998.

[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.

[3] Edward J. Zajac and James D. Westphal, Accounting for the Explanations of CEO Compensation: Substance and Symbolism, *Administrative Science Quarterly*, June 1995.

[4] Basu Sharma and Aaliya Fayyaz, The Effect of Hegemonic Power on Executive Compensation, *International Journal of Commerce & Management*, Volume 10, Issue 3-4.

[5] Smith, *The Wealth Creators*, 21-22.

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[11] George Milkovich and Jennifer Stevens, 100 Years of Change, *ACA Journal* (American Compensation Association), First Quarter 2000.

[12] John Helyar and Joann S. Lublin, America 1998: High on Stock Options, *Wall Street Journal*, August 8, 1998.

[13] Graef S. Crystal, *In Search of Excess: The Overcompensation of American Executives*. New York: W W Norton & Company, 1991, 231.

[14] John A. Byrne, Executive Pay: Compensation at the Top Is Out of Control, *Business Week*, March 30, 1992.

[15] "In the old days, you got options and you sat on them for years," one veteran compensation consultant, McKinsey & Co.'s Arch Patton, points out. "You didn't get them every year or every two years." An executive whose share price doubled, over those many years, would seldom receive a payoff any higher than a single year's salary. Helyar and Lublin, America 1998: High on Stock Options.

[16] Tim Jackson, *Inside Intel: Andy Grove and the Rise of the World's Most Powerful Chip Company*. New York: Dutton, 1997, 84.

[17] Helyar and Lublin, America 1998: High on Stock Options.

[18] Crystal, *In Search of Excess*, 127.

[19] Ibid., 73.

[20] Warner also received an exotic incentive known as the "Bonus Unit." For each Bonus Unit awarded — and Ross was initially awarded 150,000 — Ross gained the right to collect, in cash, any increase in the company's share price over $27. To make these Bonus Units even sweeter, Warner invited Ross to collect "dividend equivalents" on them. Over one five-year period, these dividend equivalents — payments equal to the stock dividends he would have received had he actually owned the Bonus Unit shares — returned Ross $634,000. All these incentives came on top of stock option awards. Ibid., 56-69.

[21] Ibid., 84.

[22] Craig Cox and Sally Power, Executive Pay: How Much Is Too Much? *Business Ethics*, September-October 1991.

[23] These investors "cajoled, pressured and shamed corporate boards to tie executives' fortunes more closely to those of stockholders" in the early 1990s. David S. Hilzenrath, Options Getting a Second Look, *Washington Post*, April 1, 2001.

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[25] Hall and Liebman, Are CEOs Really Paid Like Bureaucrats?

[26] Graef S. Crystal, *In Search of Excess*, 162.

[27] Phyllis Plitch, AFL-CIO Steps Up Executive Pay Activism in Cyberspace, Dow Jones News Service, April 4, 2001.

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[31] Buffet made this point throughout the 1990s. Tony Jackson, The Long View, *Financial Times*, August 15, 1999.

[32] Helyar and Lublin, America 1998: High on Stock Options.

[33] Ibid.

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[35] Smith, *The Wealth Creators*, 127-130.

[36] Ibid., 111-112.

[37] Ibid., 96-97.

[38] Charles R. Morris, *Money, Greed, and Risk*. New York: Random House, 1999, 124.

[39] Helyar and Lublin, America 1998: High on Stock Options.

[40] Denis Lyons, CEO Compensation: The Whole Truth, *Chief Executive*, July 1999.

[41] David Leonhardt, Executive Pay: A Special Report. New Turn on an Old Favorite, *New York Times*, April 1, 2001.

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[45] Fortunes in the Future, *Business Week*, April 16, 2001.

[46] Hilzenrath, Options Getting a Second Look.

[47] John A. Byrne, That Eye-Popping Executive Pay: Is Anybody Worth This Much? *Business Week*, April 25, 1994.

[48] James Bates, Eisner Gets a Payday of $565 Million, *Washington Post*, December 4, 1997.

[49] Janet Reingold, Special Report: Executive Pay, *Business Week*, April 19, 1999.

[50] Lisa Girion, Ex-AOL Chat Room Hosts Sue for Pay, *Los Angeles Times*, October 25, 2001.

[51] William A. Rodger, Call It the Millionaire Machine, *Washington Business Journal*, January 27, 1995.

[52] Gary Strauss, The Billionaires Club, *USA Today*, April 5, 2000.

[53] Adam Bryant, Raising the Stakes, *New York Times*, January 17, 1999.

[54] Hall and Liebman, Are CEOs Really Paid Like Bureaucrats?

[55] Carl R Weinberg, CEO Compensation: How Much Is Enough? *Chief Executive*, September 2000.

[56] Mathews, Their Riches Were Your Command.

[57] Smith, *The Wealth Creators*, 45-46.

[58] Ibid., 137.

[59] Total average CEO pay in 1996 jumped to $5,781,300. Jennifer Reingold, Tying Pay to Performance Is a Great Idea, *Business Week*, April 21, 1997.

[60] Go Figure: Pay for Performance a No-lose Deal for Today's CEOs, *Financial Post*, November 12, 1998.

[61] Equity Is King in CEO Pay, *Business Wire*, April 7, 2000 and Joann S. Lublin, Executive Pay: Dot-Com Bonanza Spills Over, *Wall Street Journal Europe*, April 13, 2000.

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[63] Apple Options Could Net Jobs $1.4 Billion, or Not, Reuters English News Service, March 12, 2001.

[64] Ian Fried, Apple Discontinues Cube, CNET News.com, July 3, 2001.

[65] Jobs, despite the Apple stock slide, would do quite well anyway. In March 2003, he was able to exchange millions of his worthless Apple options for actual shares of stock that would become his in three years. Those shares, even if Apple's share price didn't budge up an inch over the next three years, would be worth $67 million when Jobs gained title to them. Gordon T. Anderson, The Next Outrage in CEO Pay? CNN/Money, April 24, 2003.

[66] Eileen P Kelly, The Continuing Debate Over Executive Compensation, *National Forum*, Fall 2000. Notes Kelly: "While managerial ability clearly is vital to a company's success, critics nonetheless contend that a variety of internal and external factors influences the firm and its stock price. Internal factors, such as employees, or external factors, such as low inflation and collapsing commodity prices, might have more to do with the increase in a company's stock than do astute managerial decisions."

[67] Michael Lewis, All Money, All the Time, *New York Times*, June 7, 1998.

[68] David Hilzenrath, Options Getting a Second Look, *Washington Post*, April 1, 2001.

[69] Editorials: Call It Executive Overcompensation, *Business Week*, April 21, 1997.

[70] Reingold, Tying Pay to Performance Is a Great Idea.

[71] AFL-CIO Assails Firms for CEOs' Salary Deals, *Arizona Republic*, April 10, 1998.

[72] Reingold, Tying Pay to Performance Is a Great Idea.

[73] Leonhardt, Executive Pay: A Special Report. New Turn on an Old Favorite. Some executives proudly accepted tide-deflating measures. Starting

in 1994, for instance, Eli Broad, the chairman and CEO of the financial services giant, SunAmerica, only received options when his company outperformed the S&P index. "I don't think I ought to benefit just from the market going up," Broad explained. Helyar and Lublin, America 1998: High on Stock Options.

[74] Leonhardt, Executive Pay: A Special Report. New Turn on an Old Favorite. "When a company awards regular stock options, it does not have to report any cost on its earnings statements," Leonhardt explains. "An accounting rule issued in 1972 says that the cost of an option is the difference between the exercise price and the stock price on the day of the grant — which is always zero for normal options. However, because the exercise price of RCN's options is not set until a later date, the Financial Accounting Standards Board requires the company to take a charge to reported earnings."

[75] Ibid.

[76] Lyons, CEO Compensation: The Whole Truth.

[77] Daniel Gross, Owing More Than Loyalty to a Company You Run, *New York Times*, January 14, 2001.

[78] Pallavi Gogoi, False Impressions, *Wall Street Journal*, April 8, 1999.

[79] One 2002 analysis of over two hundred academic studies, conducted by Dan Dalton, the dean of the Indiana University School of Business and three other authors, found "no relationship whatsoever" between the amount of equity owned by executives and company performance. David Leonhardt, Options Do Not Raise Performance, Study Finds, *New York Times*, August 11, 2002.

[80] Gogoi, False Impressions.

[81] Ibid. The company also agreed to reimburse the executives for "half of any losses on stock held for at least three years" while, at the same time, letting them keep any gains.

[82] Ibid.

[83] Gross, Owing More Than Loyalty to a Company You Run.

[84] Ibid.

[85] Ibid. Hilbert was number four in the year's *Forbes* magazine executive pay ranking.

[86] Janice Revell, CEO Pensions: Six Sweet Deals, *Fortune*, April 14, 2003.

[87] Joseph E. Bachelder, Sarbanes-Oxley's Impact on Executive Compensation, Loans, *New York Law Journal*, August 30, 2002.

[88] Most of these loans were for buying company shares. Paul Hodgson, My Big Fat Corporate Loan, The Corporate Library. Posted December 2002. Accessed from www.thecorporatelibrary.com/spotlight/compensation/loans.html.

[89] Ask Money Watch, *Philadelphia Inquirer*, March 30, 1997.

[90] Allan Sloan, Index Investing Makes the S&P 500 Something Less Than a Benchmark, *Washington Post*, December 5, 1995.

[91] Digest, *Washington Post*, December 8, 1999.

[92] Brett D. Fromson, Sizing Up Fidelity, *Washington Post*, January 28, 1996.

[93] Weinberg, CEO Compensation: How Much Is Enough?

[94] Ibid.

[95] A buy recommendation from a "reputable analyst," Kent Womack, a professor at the Amos Tuck School of Business at Dartmouth College, has documented, can move "a stock up an average of 3 percent over a three-day period, while sell recommendations take stocks down 9 percent." Keith Regan, Are Tech Stock Analysts Too Powerful? *E-Commerce Times*, April 10, 2001.

[96] Dunphy led the Sealed Air Corp. Jeffrey Sonnenfeld. The CEO as Captain of Industry: A Dying Breed? *Directors & Boards*, Spring 2001.

[97] Bethany McLean, Why Enron Went Bust, *Fortune*, December 24, 2001.

[98] One final dynamic, adds Ezra Zuckerman, a Stanford sociologist, tends to skew the judgments stock analysts make: worry about losing access to "inside" sources. "Analysts," Zuckerman explains, "often fear that a 'sell' warning will result in severed ties to top management sources upon whom they rely for forecast information." Boat Rocking a No-no for Stock Analysts, Say Profs, *Silicon Valley/San Jose Business Journal*, June 1, 2001.

[99] "Analysts know this," business journalist Darren Gersh noted in 2001. "They know that their year-end bonus — a very large percentage of total compensation on the street — depends on firm profitability, and that depends to a large degree on investment banking. For analysts, this is an unavoidable conflict of interest." Darren Gersh, Stock Analysts: A Bonus Question, July 13, 2001. Accessed from www.nbr.com/whoswho.htm.

[100] Gretchen Morgenson, A Bubble That Enron Insiders and Outsiders Didn't Want to Pop, *New York Times*, January 14, 2002.

[101] Over 70 percent of the recommendations were either "buy" or "strong buy." Regan, Are Tech Stock Analysts Too Powerful?

[102] To appease critics, the Securities Industry Association released new "guidelines" for stock analysis just before Congress opened hearings. The guidelines prohibited analysts from profiting directly on investment banking deals. Wall Street

Defends Stock Analysts Before Congress, Reuters, June 14 2001. Critics blasted the voluntary guidelines as beside the point. "The problem is that analysts can still be compensated indirectly through year-end bonuses, and everyone on Wall Street knows their bonus — if not the money in the bonus pool itself — is likely to depend on the money brought in by investment banking deals." Gersh, Stock Analysts: A Bonus Question.

[103] Final Rules on Sarbanes-Oxley Mark End of Chapter, But Not Last Word on Securities Reform, According to CCH, January 24, 2003. News release. Accessed from www.fei.org/download/2003_SEC_Rules12403.pdf.

[104] In the 1950s, this was most definitely not the case. At mid century, those who argued for shareholder supremacy played a distinct second fiddle to those who argued that corporations had community obligations. Noted Adolf Berle, Jr., a top economic analyst, in 1954: "Twenty years ago, the writer had a controversy with the late Professor E. Merrick Dodd, of Harvard Law School, the writer holding that corporate powers were powers in trust for shareholders while Professor Dodd argued that these powers were held in trust for the entire community. The argument has been settled (at east for the time being) squarely in favor of Professor Dodd's contention." Adolf A. Berle, Jr., *The 20th Century Capitalist Revolution.* New York: Harcourt, Brace & World, Inc., 1954, 169.

[105] The Japanese, in fact, have historically feared that the interests of shareholders and top executives would become too closely aligned, at the expense of other stakeholders. Japanese executives have not been allowed to own shares in their companies. Executives were expected to run efficient enterprises, not spend their time conniving to maximize shareholder value. Patricia McBroom, A Key to the Inequality Enigma, *Berkeleyan*, April 17, 1996.

[106] David J. Collison and George M. Frankfurter, Are We Really Maximizing Shareholder Wealth? Or: What Investors Must Know When We Do, *Journal of Investing*, Fall 2000.

[107] Over one recent seven-year period, corporations actually spent more money *buying back* their shares of stock from the public than they received by selling stock to the public. The period covered the years 1987 to 1994. Marjorie Kelly, Editorial: Why All the Fuss About Stockholders? *Business Ethics*, January/February 1997.

[108] Ibid.

[109] Ellen Goodman, Cap Cash Flow to CEOs, *Arizona Republic*, April 16, 1999.

[110] Justin Hyde, Ford CEO Received $10M in 1999, Associated Press, April 11, 2001.

[111] Alex Berenson, A Software Company Runs Out of Tricks, *New York Times*, April 29, 2001.

[112] John A. Byrne, How Executive Greed Cost Shareholders $675 Million, *Business Week*, August 10, 1998.

[113] David Cay Johnston, A 1995 Executive Pay Plan Led to Big Bonus This Week, *New York Times*, May 23, 1998.

[114] These tidy sums came above and beyond the three executives' regular annual compensation. Karen Jacobs, Enough Is Enough: Computer Associates Offers a Cautionary Example of High Pay, *Wall Street Journal*, April 8, 1999.

[115] Byrne, How Executive Greed Cost Shareholders $675 Million.

[116] Jacobs, Enough Is Enough: Computer Associates Offers a Cautionary Example of High Pay,.

[117] Between the 1995 adoption of the Computer Associates incentive plan and the 1998 windfall trigger day, Computer Associates stock had repeatedly "split," each shareholder, on three different occasions, receiving three shares for each two shares held. The original 1995 incentive plan hadn't said anything about splits, but Computer Associates, in calculating the 1998 payoff, credited Wang, Kumar, and Artzt for the splits anyway. The Delaware judge balked at that move and ruled that the executives would have to return 9.5 million shares of stock, worth $550 million, to the company. Richard J. Dalton Jr. and Pradnya Joshi, Overcompensated: Judge Says CA Execs Must Return $550M in Stock, *Newsday*, November 10, 1999. CEO Wang later "agreed to return" more than 20 percent of his 1998 pay to settle the shareholder lawsuits over his 1998 special stock grant. Louis Lavelle, Special Report: Executive Pay, *Business Week*, April 16, 2001.

[118] Jacobs, Enough Is Enough: Computer Associates Offers a Cautionary Example of High Pay.

[119] Berenson, A Software Company Runs Out of Tricks.

[120] Ibid.

[121] Ibid.

[122] Strauss, The Billionaires Club.

[123] Lavelle, Special Report: Executive Pay.

[124] Reingold, Special Report: Executive Pay.

[125] Ibid.

[126] Such poorly thought-out incentive plans, charged Carol Bowie of Executive Compensation Advisory Services, are "clearly not in the best long-term interests of shareholders." Jacobs, Enough Is Enough: Computer Associates Offers a Cautionary Example of High Pay.

[127] Alex Berenson, A First Shot Is Fired at Computer Associates, *New York Times*, August 28, 2001.

[128] "CEOs get multimillion-dollar sweetheart deals," noted the AFL-CIO's Richard Trumka. "Working families worry about downsizings and layoffs." AFL-CIO Assails Firms for CEOs' Salary Deals, *Arizona Republic*, April 10, 1998.

[129] The study found 522 directors serving on executive compensation committees despite their business links to management. Adam Bryant, The CEO Cash Machine: How a Pliable System Inflates Pay Levels, *New York Times*, November 8, 1998.

[130] Ibid.

[131] Gary Strauss, CEO Paychecks: Fair or Foul? *USA Today*, April 6, 2001.

[132] Frank Swoboda, AFL-CIO Calls Boards Too Cozy With CEO on Pay, *Washington Post*, April 7, 1999.

[133] John Balzar, Executives Get Rich, Workers Get Peanuts, *Los Angeles Times*, July 29, 2001.

[134] Crystal, *In Search of Excess*, 9.

[135] Ibid., 12. A 1998 *New York Times* investigation, conducted after Crystal ended his active consulting career, documented that corporate boards were still counting on compensation consultants who had been selected by company chief executives. Bryant, The CEO Cash Machine: How a Pliable System Inflates Pay Levels.

[136] Zajac and Westphal, Accounting for the Explanations of CEO Compensation: Substance and Symbolism.

[137] Ibid. The research examined long-term incentive plans adopted between 1976 and 1990.

[138] Ibid.

[139] Bryant, The CEO Cash Machine: How a Pliable System Inflates Pay Levels.

[140] In 1997, after three lackluster years, Time Warner's stock finally started rising. A grateful Time Warner upped CEO Levin's bonus to $6.5 million. Levin had "performed." Bryant, The CEO Cash Machine: How a Pliable System Inflates Pay Levels.

[141] Louis Lavelle, The Artificial Sweetener in CEO Pay, *Business Week*, March 26, 2001.

[142] Strauss, The Billionaires Club.

[143] Jay W. Lorsch, CEO Pay: Facts and Fallacies, *Corporate Board*, May-June 1999.

[144] Jeff Brown, Tricky Answers to a Trick Question, *Philadelphia Inquirer*, May 20, 2001.

[145] Quote from Herschel Bloom of the Russell Corp. In 1999, Russell CEO John Ward took home a 36 percent pay hike, despite a 15 percent dip in the company's share value. The share value of Russell's peer companies, that same year, rose 8.6 percent. Lavelle, The Artificial Sweetener in CEO Pay.

[146] Bernard Condon, Share Scare, *Forbes*, May 14, 2001.

[147] In 1996, according to Executive Compensation Advisory Services, 29 percent of corporate boards distributed restricted stock grants. Jennifer Reingold, Special Report: Executive Pay.

[148] Jim Bohman, Utility Execs See Pay Soar During 2000, *Dayton Daily News*, March 21, 2001.

[149] Jennifer Files, Market Forces Push CEO Pay Higher, *Dallas Morning News*, May 7, 2000.

[150] The Glare of Golden Handcuffs at Seagate, *San Jose Mercury News*, March 7, 1996.

[151] Lublin, Lowering the Bar.

[152] Mike Hughlett, Executive to Get $30 Million for Leaving Minnesota's Green Tree Financial, *St. Paul Pioneer Press*, November 3, 1998.

[153] Roberta Maynard, How to Attract Top Talent in Hard Times, *Nation's Business*, April 1994.

[154] In 1996, 59 percent of 1,100 public companies surveyed dealt out golden parachutes. The 1988 share: just 41 percent. Laura Koss-Feder, Surreys With Less Fringe: A Decline in Executive Perks, *New York Times*, January 25, 1998.

[155] Coulter's windfall was calculated by *The Crystal Report*. Hughlett, Executive to Get $30 Million for Leaving Minnesota's Green Tree Financial.

[156] Stephenie Overman, Stock Options: Reprice or Hold Fast? *HR Magazine*, April 1999.

[157] Reingold, Special Report: Executive Pay.

[158] Overman, Stock Options: Reprice or Hold Fast?

[159] Lublin, Lowering the Bar. In 1998, Applied Magnetics, a parts maker for computer disk-drives, repriced some 300,000 worthless options that had been granted to CEO Craig Crisman. But this initial repricing didn't help. The stock kept sinking, making even the repriced options worthless. Directors at Applied Magnetics then slashed the exercise price on those 300,000 shares once again — and repriced another 400,000 shares they hadn't bothered to reprice the first time around.

[160] In fact, a study by three academics at Indiana University has found, the *New York Times* reports, "no evidence that the repricing of options was associated with improvement in the financial performance of the company." Gretchen Morgenson, Dispelling the Myth That Options Help Shareholders, *New York Times*, July 29, 2001.

[161] The fortunate MGM former CEO, Frank Mancuso, had his options repriced from $24 to $14.90 per share. He also received, upon exiting MGM, a $2 million annual consulting contract. Jennifer Reingold, Executive Pay: It Continues to

Explode — and Options Alone Are Creating Paper Billionaires, *Business Week*, April 17, 2000.

[162] Lyons, CEO Compensation: The Whole Truth.

[163] The new rules were retroactive to December 15, 1998. Reingold, Executive Pay: It Continues to Explode — and Options Alone Are Creating Paper Billionaires.

[164] Kathleen Day, Defying Gravity: CEO's Compensation Remains at Record Highs Despite Plunging Stock Prices, *Washington Post*, April 1, 2001.

[165] "What's happening is that they have been giving their employees dramatically more options in the past year at lower prices," one pension fund official with a Canadian union pointed out in 2001. "They're leaving the old ones as is, but they might be giving them three to four times as many options at the new lower price." Brian Gibson of the Ontario Teachers Pension Plan Board, quoted in John Partridge, Corel, Investors Set to Clash Over Options, *Globe and Mail*, March 30, 2001.

[166] Stephen Franklin and Kathy Bergen, Increase in Stock Options, Grants Triggers Explosion in CEO Pay, *Chicago Tribune*, April 23, 2000.

[167] Reingold, Executive Pay: It Continues to Explode — and Options Alone Are Creating Paper Billionaires.

[168] David Leonhardt, Executive Pay: A Special Report. Little to Risk, Much to Gain, *New York Times*, April 1, 2001.

[169] Rachel Emma Silverman, Heads I Win, Tails I Win, *Wall Street Journal*, April 6, 2000.

[170] Reingold, Executive Pay: It Continues to Explode — and Options Alone Are Creating Paper Billionaires.

[171] Ibid.

[172] Harrison Rainie, The State of Greed, *US News & World Report*, June 17, 1996.

[173] John A. Byrne, Executive Pay: Compensation at the Top Is Out of Control.

[174] Ibid.

[175] Byrne, That Eye-Popping Executive Pay: Is Anybody Worth This Much?

[176] Ibid.

[177] John A. Byrne, CEO Pay: Ready for Takeoff, *Business Week*, April 24, 1995.

[178] David Cay Johnston, Executives' Pay Soars More Than Company Profits, *New York Times*, September 2, 1997.

[179] CEO bonuses were up 39 percent in 1995, stock option earnings up 45 percent. Base salaries, by contrast, jumped just 4 percent. John A. Byrne, CEO Pay: Gross Compensation? New Pay Figures Make Top Brass Look Positively Piggy, *Business Week*, March 18, 1996.

[180] Editorials: Call It Executive Overcompensation, *Business Week*.

[181] Reingold, Special Report: Executive Pay, *Business Week*, April 20, 1998.

[182] Reingold, Special Report: Executive Pay, April 19, 1999.

[183] Lublin, Lowering the Bar.

[184] Drexler's bonanza narrowly edged out Yahoo CEO Timothy Koogle's $476.4 million and outpaced, by somewhat wider margins, IBM CEO Louis Gerstner's $336.1 million, America Online CEO Steve Case's $325.8 million, and Time Warner CEO Gerald Levin's $232.8 million. The data for the *USA Today* numbers came from Graef Crystal. Gary Straus and Del Jones, Wealth of Titans, *USA Today*, April 7, 1999.

[185] Reingold, Executive Pay: It Continues to Explode — and Options Alone Are Creating Paper Billionaires.

[186] Straus and Jones, Wealth of Titans.

[187] Day, Soldiers for the Shareholder.

[188] "I think the best chance for bringing compensation under control would be, say, a dozen really powerful institutions — organizations like Fidelity and Vanguard — stating that they're going to vote against any management that oversteps on compensation," one veteran CEO told *Fortune* magazine in 2001. "But we haven't seen that happen, and I don't think we will." Carol J. Loomis, 'This Stuff Is Wrong,' *Fortune*, June 25, 2001.

[189] In 1985, Monks founded Institutional Shareholder Services, an innovative effort to help institutional investors understand the issues that come up for votes at corporate annual shareholder meetings. Day, Soldiers for the Shareholder.

[190] Ibid.

[191] John A. Byrne, That Eye-Popping Executive Pay: Is Anybody Worth This Much?

[192] Jacobs, Enough Is Enough: Computer Associates Offers a Cautionary Example of High Pay.

[193] Dunstan Prial, TIAA-CREF Aims At Executive Pay, Associated Press, March 21, 2000.

[194] Stephen Franklin, Chicago-Based Construction Firm Faces Proxy Fight over Executives' Wages, *Chicago Tribune*, April 23, 2000.

[195] The Testimony of Mr. Sean Harrigan President, California Public Employees' Retirement System, Hearing on CEO Compensation, Senate Committee on Commerce, Science and Transportation, May 20, 2003.

[196] Richard Trumka, secretary-treasurer, AFL-CIO, Letter to Jonathan Katz, Securities and Exchange Commission, May 15, 2003. Accessed at www.sec.gov/rules/other/s71003/aflcio051503.htm.

[197] Stephen Labaton, S.E.C. to Ease Voting for Outside Directors, *New York Times*, July 16, 2003.

[198] Day, Soldiers for the Shareholder.

[199] James K. Glassman, Stocks Won't Fall Forever, *Washington Post*, January 6, 2002. Some more numbers: Investors lost 12 percent of their portfolios, "based on the Wilshire 5000 total-market index, and profits for the Standard & Poor's 500 companies rose at less than half their pace in the 1990's." David Leonhardt, Executive Pay: A Special Report for the Boss, Happy Days Are Still Here, *New York Times*, April 1, 2001.

[200] Companies that trade on the stock market "have to disclose pay information for their CEOs and four other highest-paid executives each year in reports filed with the U.S. Securities and Exchange Commission and mailed to shareholders." Drew DeSilver, It Was a Fat 2000 for Top Northwest CEOs, *Seattle Times*, June 10, 2001.

[201] The median pay for the top executives the *Times* analyzed: $6.2 million. The year's top earners in the *Times* ranking: Steven Jobs, Apple Computer, $775.0 million; Sanford Weill, Citigroup, $315.1 million; Lawrence Ellison, Oracle, $216.4 million; L. Dennis Kozlowski, Tyco International, $205.2 million; John Welch Jr., General Electric, $144.5 million. Leonhardt, Executive Pay: A Special Report for the Boss.

[202] Lavelle, Special Report: Executive Pay.

[203] The Boss's Pay, *Wall Street Journal*, April 12, 2001.

[204] Strauss, CEO Paychecks: Fair or foul?

[205] CEOs of the top U.S. companies in 2000, the *Post* noted, jumped 16 percent to "a record average of $10.89 million." Day, Defying Gravity: CEO's Compensation Remains at Record Highs Despite Plunging Stock Prices.

[206] Elise Ackerman, Cashing in at Right Time, *San Jose Mercury News*, June 17, 2001.

[207] Ibid.

[208] Day, Defying Gravity; CEO's Compensation Remains at Record Highs Despite Plunging Stock Prices.

[209] Leonhardt, Executive Pay: A Special Report for the Boss, Happy Days Are Still Here.

[210] Hilzenrath, Options Getting a Second Look.

[211] Ackerman, Cashing in at Right Time.

[212] Ibid.

[213] Strauss, CEO Paychecks: Fair or Foul?

[214] In 1999, Cisco's top six executives cleared $220.5 million in option gains. Ackerman, Cashing in at Right Time.

[215] In 1999, executives happily cashed out 23 percent of their outstanding options. In 2000, they cashed out just 10 percent. Leonhardt, Executive Pay: A Special Report for the Boss, Happy Days Are Still Here.

[216] Day, Defying Gravity: CEO's Compensation Remains at Record Highs Despite Plunging Stock Prices.

[217] Strauss, CEO Paychecks: Fair or Foul? And what about all those options granted in years past that had gone "underwater"? Executives convinced boards to lower the exercise price on many of these underwater options. Or asked for — and received — new grants of actual shares, not options to buy shares. Actual shares, of course, have value even if their price keeps sinking. Leonhardt, Executive Pay: A Special Report for the Boss, Happy Days Are Still Here. PNC Financial gave $3.9 million worth of actual shares to CEO James Rohr in 2000, after going the entire decade of the 1990s without awarding a single free share. CVS, the drug store chain, handed chief executive Thomas Ryan $5.5 million worth. Both companies said the grants were needed to retain executives in a "competitive" business environment. Condon, Share Scare.

[218] Strauss, CEO Paychecks: Fair or Foul?

[219] Ackerman, Cashing in at Right Time.

[220] Mark Schwanhausser, Option Gains Held Up Well for Top-10 Bosses, *San Jose Mercury News*, June 8, 2002.

[221] Leonhardt, Executive Pay: A Special Report for the Boss, Happy Days Are Still Here.

[222] A mulligan gives a golfer the opportunity to "do over" a bad shot.

[223] And if options don't do the trick, one veteran CEO told *Fortune* in 2001, executives will just get corporate boards to replace options with some other "incentives" that will. "Anyone who is greedy, anyone who is on the make, anyone who is aggressive about what they're being paid," the executive explained, "will get rid of formulas they don't like." Loomis, 'This Stuff Is Wrong.'

[224] Leonhardt, Executive Pay: A Special Report for the Boss, Happy Days Are Still Here.

[225] Ibid.

[226] Ibid. In 2001, "average" compensation for chief executives did fall 8 percent, to $15.5 million, but only, the *New York Times* would caution, "because the year had seen a tailing off in the number of "truly enormous paychecks."

[227] Jerry Useem, CEO Pay: Have They No Shame? *Fortune*, April 14, 2003.

[228] Gary Strauss, Many Execs Pocket Perks Aplenty, *USA Today*, May 1, 2001.

[229] In 1997, for instance, Tyson Foods gave senior chairman Don Tyson $414,817 for travel and

entertainment and another $288,859 to cover any additional taxes Don might have to fork over. Adam Bryant, New Look of Perks: From Plane Trips to Tax Preparation, *New York Times*, April 5, 1998.

[230] By 1997, the late CEO of Coca-Cola, Roberto Goizueta, had accumulated more than $1 billion in his deferral accounts. Johnston, Executives' Pay Soars More Than Company Profits.

[231] Ellen Schultz and Theo Francis, Well-Hidden Perk Means Big Money for Top Executives, *Wall Street Journal*, February 11, 2002.

[232] Johnston, Executives' Pay Soars More Than Company Profits.

[233] Executive pay deferral plans, unlike pension and 401(k) plans, are not privileged. In a bankruptcy, creditors cannot seize pension and 401(k) assets. Executive deferral plans enjoy no such protection. Christopher Drew and David Cay Johnston, Special Tax Breaks Enrich Savings of Many in the Ranks of Management, *New York Times*, October 13, 1996.

[234] Ibid.

[235] Ibid.

[236] Strauss, Many Execs Pocket Perks Aplenty.

[237] Leonhardt, Executive Pay: A Special Report for the Boss, Happy Days Are Still Here.

[238] So Much Money, So Little Time, *Wall Street Journal*, April 8, 1999.

[239] Strauss, Many Execs Pocket Perks Aplenty.

[240] Several executives, in early 1998, owned more shares than Michael Dell. Bill Gates held $35 billion in Microsoft shares to lead the CEO pack. Sumner Redstone, with $4.1 billion of Viacom shares, and Philip Knight, with $3.68 billion of Nike shares, led Dell. David Cay Johnston, Here's How the Chiefs Stock Up, *New York Times*, February 15, 1998.

[241] Allan Sloan, Clean-Up Time, *Business Week*, March 15, 1999, and Hilzenrath, Options Getting a Second Look.

[242] Hilzenrath, Options Getting a Second Look.

[243] Sloan, Clean-Up Time.

[244] Ibid.

[245] A Leader's Eye View of Leadership A Roundtable Discussion, *New York Times*, October 10, 1999.

[246] Byrne, CEO Pay: Ready for Takeoff.

[247] "The Sarbanes-Oxley Act," notes one summary, "requires chief executives to certify the accuracy of financial reports, increases the responsibilities of corporate board members, restricts the type of work accountants can do, and established a new accounting industry oversight board." Carrie Johnson, Lavish Executive Pay Still a Target, *Washington Post*, July 31, 2003.

[248] Gary Strauss, CEOs Still Sitting on Piles of Pay, *USA Today*, August 12, 2003.

[249] This discussion about WorldCom draws from Richard C. Breeden, Restoring Trust: Report to the Hon. Jed S. Rakoff, the United States District Court for the Southern District of New York on Corporate Governance for the Future of MCI, Inc. August 2003. Accessed from www.thecorporatelibrary.com/spotlight/scandals/Restoring_Trust_Final-WorldCom.pdf.

[250] Breeden did allow retention bonuses in certain situations, namely when acquisitions or facility closings are involved.

[251] The maximum, Breeden's report noted, could only be exceeded by an explicit shareholder vote.

[252] Barnaby J. Feder, WorldCom Report Recommends Sweeping Changes for Its Board, *New York Times*, August 26, 2003.

[253] Steven Pearlstein, Capping Pay of CEOs Is the Way to Go, *Washington Post*, September 19, 2003.

[254] Strauss, CEO Still Sitting on Piles of Pay.

THE GREEDY AS DESERVING

[1] Pay, "doesn't really motivate" CEOs, corporate pay expert Graef Crystal has noted. "They are already working as hard as they can; they are already working as smart as they can." Reed Abelson, Who Profits if the Boss Is Overfed? *New York Times*, June 20, 1999.

[2] The *Worth* poll, conducted by Roper Starch Worldwide, surveyed five hundred people worth at least $250,000 in income or $2.5 million in assets. Richard Todd, Who Me, Rich? *Worth*, September 1997.

[3] Jay W. Lorsch, CEO Pay: Facts and Fallacies, *Corporate Board*, May-June 1999.

[4] Christian was the president of Christian & Timbers, an executive headhunting company. Ricardo Sandoval, Over the Top or Right on the Money? *San Jose Mercury News*, June 23, 1996.

[5] Dunlap made this comment to the Wharton/SpencerStuart Director's Institute. 'If You're Going to Be a Director,' *Directors & Boards*, Winter 1995.

[6] "For years," noted former SEC commissioner, Philip R. Lochner Jr., "he was the greatest thing in the media's eyes that American enterprise had ever seen." Jeffrey Sonnenfeld, The CEO as Captain of Industry: A Dying Breed? *Directors & Boards*, Spring 2001.

[7] The Wharton School, one of America's most pres-

tigious business schools, invited Dunlap to launch a new lecture series. Tasha Huebner, Al Dunlap: Mean Business, *Wharton Journal*, 1996. Republicans in the House of Representatives made him one of the few outsiders invited to address their retreat for freshmen lawmakers. Dunlap advised the freshmen, in January 1996, to privatize as much of government as they could. "Maybe Yellowstone should be run by Disney," he noted. Downsizing the American Dream A Staff Report of the House Democratic Policy Committee, March 11, 1996.

[8] "He has been a wake-up call to a lot of CEOs, and he has been good for American business," noted one typical admirer, Wayne R. Sanders, chairman of Kimberly-Clark. John A. Byrne, The Shredder: Did CEO Dunlap Save Scott Paper — or Just Pretty It Up? *Business Week*, January 15, 1996.

[9] Leslie Kaufman, Cashing Out Rambo, *Newsweek*, July 31, 1995.

[10] 'Chainsaw' Self-portrait, *USA Today*, August 30, 1996.

[11] In 1986, a triumphant Dunlap left Lily-Tulip with $6.5 million in personal stock-option gains. John A. Byrne, Who Is the Real 'Chainsaw Al'? *Business Week*, December 2, 1996.

[12] Andi Simmons Bolton, Sunbeam Chairman Says Mississippi Plants Poised for Growth, *Mississippi Business Journal*, February 17, 1997.

[13] The firm's founders, Irvin and Clarence Scott, had invented the bathroom tissue roll in 1879. Their company would later go on to invent the paper towel and become, by 1990, the world's largest single supplier of household paper products. Byrne, The Shredder: Did CEO Dunlap Save Scott Paper — or Just Pretty It Up?

[14] 'Chainsaw' Self-portrait, *USA Today*, August 30, 1996.

[15] Molly Baker, CEOs and Layoffs: Should Salary Be Linked? *Orange County Register*, May 30, 1995.

[16] Byrne, The Shredder: Did CEO Dunlap Save Scott Paper — or Just Pretty It Up?

[17] Ibid.

[18] Ibid. The company's total market value had soared by $6.3 billion.

[19] 'If You're Going to Be a Director ....,' *Directors & Boards*, Winter 1995.

[20] "The handwriting has been on the wall a long time," as one such observer, Greater Philadelphia First executive director John Claypool, pointed out. "Dunlap has been very clear on how important making money was to him, and the way to do that in the short term is to make the company as attractive as possible and sell it." Beth Reinhard, Paper Products Firms to Merge, *Palm Beach Post*, July 18, 1996.

[21] Byrne, The Shredder: Did CEO Dunlap Save Scott Paper — or Just Pretty It Up?

[22] Ibid.

[23] Dunlap's reward for joining Kimberly-Clark and Scott in merger bliss will include $20 million for agreeing not to give a competing company the benefit of his wisdom, $12 million to buy out his five-year contract at Scott, 5,000 shares of stock a year for advising the new company, and about $50 million or so worth of stock options. Beth Reinhard, Scott CEO Reaps Millions from Turnaround, Merger, *Palm Beach Post*, July 19, 1995.

[24] 'Chainsaw' Self-portrait, *USA Today*, August 30, 1996. For Dunlap, who claimed he worked 100 hours a week during his 20-month Scott Paper stint, the $100 million reward amounted to $12,500 for every single hour he worked.

[25] Byrne, The Shredder: Did CEO Dunlap Save Scott Paper — or Just Pretty It Up?

[26] Ibid.

[27] Bridging the Gap, PBS Lehrer News Hour, March 20, 1996.

[28] Ibid.

[29] The total combined workforce was sixty thousand. Byrne, The Shredder: Did CEO Dunlap Save Scott Paper — or Just Pretty It Up?

[30] Ibid. The move Dunlap dubbed "the linchpin of my strategy" — the $1.6 billion sale of a Scott papermaker subsidiary — had first been scoped out a year before Dunlap arrived on the scene. The high-tech tissue mill in Kentucky that Dunlap "opened with great fanfare" in 1995 had been initiated in 1990. Several product initiatives Dunlap credited to his management team were actually "the result of years of effort by ousted staffers." Added *Business Week*: "Even many of the employee layoffs had already been approved by Scott before Dunlap came on board."

[31] Ibid.

[32] John A. Byrne and Gail DeGeorge, Commentary: Dear Al Dunlap: Put Away the Chainsaw, *Business Week*, August 5, 1996.

[33] Ibid.

[34] Ibid.

[35] The downsizing, reported the *Wall Street Journal*, appeared "to represent one of the single biggest percentage cutbacks ever announced by a major U.S. corporation." Robert Frank and Joann S. Lublin, Dunlap's Ax Falls — 6,000 Times — at Sunbeam, *Wall Street Journal*, November 13, 1996.

[36] Nobody could reasonably claim Sunbeam was bloated. Only sixty staffers worked at the firm's

Fort Lauderdale corporate headquarters. Byrne and DeGeorge, Commentary: Dear Al Dunlap: Put Away the Chainsaw.

[37] Ibid. "At Sunbeam," *Business Week* advised the new Sunbeam CEO, "you won't be able to just put a blender or gas grill in new packaging — the kind of thing you often did at Scott — and hope that it sells." Neither would Dunlap, the magazine added, "be able to pass on double-digit price increases to consumers" as he did at Scott.

[38] Gail DeGeorge, Al Dunlap Revs His Chain Saw, *Business Week*, November 25, 1996. "You don't cut that dramatically without creating chaos inside the company," warned management consultant Alan Downs. Robert Frank and Joann S. Lublin, Dunlap's Ax Falls — 6,000 Times — at Sunbeam, *Wall Street Journal*, November 13, 1996.

[39] Barbara Sullivan, Hatchet Man or Savior? *Chicago Tribune*, January 17, 1997.

[40] Sunbeam Axes 'Chainsaw Al' Dunlap, CNNfn, June 15, 1998.

[41] Digest, *Washington Post*, March 10, 1998.

[42] The losses total $44.5 million. Sunbeam Axes 'Chainsaw Al' Dunlap, CNNfn.

[43] Ibid.

[44] From their March level. Ibid.

[45] Martha Hamilton, Who's Chainsawed Now? *Washington Post*, June 16, 1998.

[46] Dunlap's management team, an SEC official explained, had engaged in what "appears to have been a coldly calculated plan to inflate the price of the stock, ultimately for the personal enrichment" of the executives involved. David S. Hilzenrath, Sunbeam Accused of Fraud, *Washington Post*, May 16, 2001.

[47] Ben White, Dunlap, Sunbeam Shareholders Settle, *Washington Post*, January 15, 2002. Sunbeam filed for Chapter 11 protection in 2001 "after struggling under a massive $2 billion debt amassed under Dunlap."

[48] This Coleman discussion draws from David Evans, CEOs Seldom Lose in Mergers, *Cleveland Plain Dealer*, September 6, 1998.

[49] Dunlap, a check into his background would have found, had a history of shady dealings. At Nitec, a New York papermaker, Dunlap was credited with hiking company profits. He left the company in 1976 with an exit agreement that promised $1.2 million, a princely sum in mid-1970s America. But auditors, after Dunlap left, found expenses that hadn't been recorded and recorded sales that had never actually been made. The company, they concluded, had actually lost some $5.5 million. Nitec's top bookkeeper later testified that the fraud had been perpetrated on direct orders from Dunlap. Floyd Norris, An Executive's Missing Years: Papering Over Past Problems, *New York Times*, July 16, 2001.

[50] Joann S. Lublin, Pay for No Performance, *Wall Street Journal*, April 9, 1998.

[51] Office Depot Paid Ex-CEO $8.6 Million in Severance Package, *Wall Street Journal*, March 29, 2001.

[52] Bowie, when she made this comment, was the research director of the Virginia-based Executive Compensation Advisory Services company. Lublin, Pay for No Performance.

[53] In 2001, a U.S. court of appeals threw out Judge Jackson's remedy for Microsoft's abuses — break up Microsoft — but upheld his finding that Microsoft had violated the nation's antitrust statutes. Court ruling accessed from http://news.com.com/html/ne/Special/Microsoft/msft_ruling.html.

[54] Roy C. Smith, *The Wealth Creators: The Rise of Today's Rich and Super-Rich*. New York: St. Martin's Press, 2001, 123-130. Investors who buy a government or corporate bond are guaranteed their original investment back, by a specified future date, plus interest. Bonds from long-established companies are usually considered rock-solid safe. But not every company that tries to raise cash by selling bonds fits the blue-chip label. These riskier corporations just might default sometime down the road, and investors, to protect themselves from that danger, have historically demanded that bonds from shaky companies pay higher interest than bonds from more stable enterprises. But shaky companies, Milken's personal research revealed, seldom defaulted, and, if they did, investors could recover some of what they lost in bankruptcy proceedings. Investors could make money, Milken concluded, buying low-grade bonds and holding them, particularly because "junk bonds" could be bought at prices that reflected the financial market's soft demand for this shaky paper. If Milken could convince enough investors to rethink their distaste for low-grade bonds, a real market in junk-bond trading could emerge. And if a real market emerged, then more companies might try floating bonds to raise money. And if that ever happened, then any company quick enough to connect these companies with investors — and corner the junk bond market in the process — could make major fortunes on fees and commissions. The company where Milken worked, Drexel Burnham, did that cornering in the 1980s. In 1986, America's junk bond king pulled in $550 million.

[55] Smith, *The Wealth Creators: The Rise of Today's Rich and Super-Rich*, 123-130.

[56] Susan Stranahan, The Clean Room's Dirty Secret, *Mother Jones*, March-April 2002. The Silicon Valley Toxics Coalition (www.svtc.org) has been working to focus public attention on these high-tech hazards.

[57] Ibid. Based on a $12 median hourly wage.

[58] The Top-Paid Chief Executives, *Business Week*, April 17, 2000.

[59] Stranahan, The Clean Room's Dirty Secret.

[60] Alex Callinicos, Equality. Cambridge: Polity Press. Malden, Mass.: Blackwell Publishers, 2000, 78.

[61] Castle made his fortune as the chief executive at Castle Harlan Inc. Joann S. Lublin, Living Well, *Wall Street Journal*, April 8, 1999.

[62] The study was conducted by the Management Resource Group. Another Reason to Hate the Rich, *Washington Post*, September 20, 1998.

[63] Thoreau was dismissing arguments that the extreme exertions of gold prospectors gave them a right to their riches. Patricia Nelson Limerick, Of Forty-Niners, Oilmen and the Dot.Com Boom, *New York Times*, May 7, 2000.

[64] This $25 million was the compensation for CEOs who led $7 billion enterprises. William G. Cunningham and J. Brent Sperry, Where's the Beef in Administrator Pay? *School Administrator*, February 2001.

[65] Shareowners and Institutional Holders Fight Corporate Director Benefits, *Communications Daily*, April 17, 1995.

[66] John A. Byrne, CEO Pay: Gross Compensation? *Business Week*, March 18, 1996.

[67] The 1934 data come from the Survey of American Listed Corporations, a Works Progress Administration project "supervised by the SEC to report compensation and balance-sheet data for publicly traded firms." The survey recorded the "direct compensation of the highest-paid employee" in each firm. Austan Goolsbee. Evidence on the High-Income Laffer Curve from Six Decades of Tax Reform, *Brookings Papers on Economic Activity*, Fall 1999.

[68] Guide to the Presidency: Presidential and Vice Presidential Salaries Exclusive of Perquisites. *Congressional Quarterly*. Accessed from www.lib.umich.edu/libhome/Documents.center/fedprssal.html.

[69] The best-paid executives in 1970, those at the ninetieth percentile, averaged $250,000, the equivalent of $1,161,334 in 2001 dollars. The data are from the Forbes CEO Compensation Survey published in 1971. Austan Goolsbee. Evidence on the High-Income Laffer Curve from Six Decades of Tax Reform, *Brookings Papers on Economic Activity*, Fall 1999.

[70] Guide to the Presidency: Presidential and Vice Presidential Salaries Exclusive of Perquisites. *Congressional Quarterly*. Accessed from www.lib.umich.edu/libhome/Documents.center/fedprssal.html.

[71] Brian J. Hall and Jeffrey B. Liebman, Are CEOs Really Paid Like Bureaucrats? *Quarterly Journal of Economics*, August 1998. The authors calculate the median direct compensation for CEOs in 1980 at $622,777 in 1994 dollars.

[72] Goolsbee, Evidence on the High-Income Laffer Curve from Six Decades of Tax Reform. The inflation adjustment for 2001 reflects an author's calculation. In 1934, corporate top executive salary and bonus packages ranged, according to contemporary survey work, from $32,000 at the tenth percentile to $126,000 at the ninetieth percentile.

[73] Ibid. The inflation adjustment for 2001 reflects an author's calculation. The $154,427 figure, to be more precise, actually represents the arithmetic average CEO pay for 1970. Top executive compensation in 1970 stood at $77,000 at the tenth percentile, $100,000 at the twenty-fifth percentile, $140,000 at the fiftieth percentile, and $190,000 at the seventy-fifth percentile.

[74] Hall and Liebman, Are CEOs Really Paid Like Bureaucrats? Author's calculation for the 2001 inflation adjustment.

[75] Gary Strauss, Why Are These CEOs Smiling? Must Be Payday, *USA Today*, March 25, 2002.

[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.

[78] Ken Belson, Learning How to Talk About Salary in Japan, *New York Times*, April 7, 2002.

[79] Lisa Biank Fasig, CEO Pay Doesn't Break Banks, *Providence Journal*, March 14, 2001. Surveys in the late 1990s found that CEOs of moderately sized American corporations made three times more than their Spanish counterparts and more than twice the pay of French chief executives. Peter Goldstein, Compensation Packages for Executives Aren't All Alike, *Wall Street Journal Europe*, December 22, 1998.

[80] John A. Byrne, That Eye-Popping Executive Pay Is Anybody Worth This Much? *Business Week*, April 25, 1994.

[81] John Kay, *Why Firms Succeed*. New York: Oxford University Press, 1995. 243.

[82] Graef Crystal, Andy's Dandy: Intel CEO Is Worth Every Penny of $94 Million, *San Francisco Business Times*, April 28, 1997.

[83] Ibid.

[84] Jay Mathews, Their Riches Were Your Command, *Washington Post*, March 24, 1996.

[85] Crystal, Andy's Dandy: Intel CEO Is Worth Every Penny of $94 Million.

[86] Andy Santoni, Intel Puts Grove on Center Stage as Chairman, *Infoworld*, March 30, 1998.

[87] Philip Whiteley, Introducing the 10 Million Dollar CEO, *The Times* (London), March 22, 2001.

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[90] Greg Steinmetz and Gregory L. White, Chrysler's Executive Pay Draws Fire from Overseas, *Wall Street Journal*, May 26, 1998.

[91] Deborah Orr, Damn Yankees, *Forbes*, May 17, 1999.

[92] Denis Lyons, CEO Compensation: The Whole Truth, *Chief Executive*, July 1999.

[93] Sarah Anderson and John Cavanagh, Institute for Policy Studies, Chris Hartman and Betsy Leondar-Wright, United for a Fair Economy, Executive Excess 2001: Eighth Annual CEO Compensation Survey, September 2001. Original sources: Jennifer Reingold with Fred Jespersen, Executive Pay: It Continues to Explode — and Options Alone Are Creating Paper Billionaires, *Business Week*, April 17, 2000, and Jennifer Gill, "We're Back to Serfs and Royalty," *Business Week*, April 9, 2001.

[94] Margaret M. Blair, CEO Pay: Why Such a Contentious Issue? *Brookings Review*, Winter 1994.

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[98] Michael Lewis, The Rich: How They're Different . . . Than They Used to Be, *New York Times*, November 19, 1995.

[99] Marc Gunther, Has Eisner Lost the Disney Magic? *Fortune*, January 2002.

[100] James Bates, Eisner Gets a Payday of $565 Million, *Washington Post*, December 4, 1997.

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[102] Gunther, Has Eisner Lost the Disney Magic?

[103] Paul Farhi, Disney Chief May Reap $771 Million from Stock Options, *Washington Post*, February 22, 1997.

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[105] Bill Shaikin, A Capital Idea: Paying 'Mo' Money Merely Shows That Angels Are Intent on Fielding a Winner, *Los Angeles Times*, April 6, 1999.

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[107] Bernard Weinraub, The Vehicle Is Everything, *New York Times Book Review*, June 8, 1997, review of Robert Slater, *Ovitz: The Inside Story of Hollywood's Most Controversial Power Broker*. New York, McGraw-Hill, 1997.

[108] Jennifer Reingold, Where Parting Is Such a Sweet Deal, *Business Week*, March 31, 1997. The size of the severance package later became a matter of some dispute, with estimates ranging from $128 million to only $25 million. Nikki Finke, Did Ovitz Tell a Whopper About $90 Million Deal? *New York Observer*, December 23, 1996.

[109] Harry Berkowitz, Media Titans Take Off Gloves, *Washington Post*, May 4, 2001.

[110] Richard Verrier, Disney's Problems Run Deep Orlando, *Orlando Sentinel*, April 9, 2001.

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[112] Ibid.

[113] Richard Verrier, Disney's Problems Run Deep Orlando, *Orlando Sentinel*.

[114] Gunther, Has Eisner Lost the Disney Magic?

[115] Ibid.

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[117] Stewart Pinkerton, Seven Ways to Solve the Executive Pay Mess, Forbes.com, July 23, 2003.

[118] Only three people younger than the thirty-five-year-old Bezos — Charles Lindbergh, Queen Elizabeth II, and Martin Luther King Jr. — had ever won the *Time* honor. Jeffrey Preston Bezos: 1999 Person of the Year, *Time*, December 27, 1999.

[119] Jeffrey Preston Bezos: 1999 Person of the Year, *Time*.

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[121] Jeffrey Preston Bezos: 1999 Person of the Year, *Time*.

[122] Amazon was $720 million in the red when Time honored Bezos in December 1999. How Much Did They Lose? *Time*, October 23, 2000.

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[124] Saul Hansell, A Front-Row Seat as Amazon Gets Serious, *New York Times*, May 20, 2001.

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[127] Why Amazon made money, *Chain Store Age Executive with Shopping Center Age*, March 2002.

[128] Larry Dignan, Amazon Posts Its First Net Profit, CNET News.com, January 22, 2002.

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[131] Stock Fund for Those Laid Off, *eweek*, February 5, 2001.

[132] Miguel Helft, Amazon.com Workers Begin Union Drive, *The Standard*, November 16, 2000.

[133] Ibid.

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[136] Richard Cohen, No Way to Do News Business, *Washington Post*, November 11, 1999.

[137] Jo Ann Wypijewski, GE Brings Bad Things to Life, *Nation*, February 12, 2001.

[138] Michael Kinsman, Survey Shows Highest Paid CEO Made $655 Million, *San Diego Union-Tribune*, April 1, 2000.

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[140] GE Chief's Book Advance Jolts Publishers, *Washington Post*, July 15, 2000.

[141] Robert H. Frank, *Luxury Fever: Money and Happiness in an Era of Excess*. Princeton: Princeton University Press, 1999, 39.

[142] Forced Rankings: Tough Love or Overkill? *HR Focus*, February 2002.

[143] Philip Kennicott, When Golden CEO Jack Welch Stepped Down, It Was Into the Mud, *Washington Post*, October 14, 2002.

[144] Matthew Boyle, Performance Reviews: Perilous Curves Ahead, *Fortune* (Asia), May 28, 2001. An estimated fifth of America's biggest companies are now following Welch's "forced ranking" lead. Forced Rankings: Tough Love or Overkill? *HR Focus*, February 2002.

[145] Allan Sloan, Demise of NBCi Shows the Dangers of Trying to Create Internet Wampum, *Washington Post*, April 17, 2001.

[146] Ibid.

[147] Group Calls for Limiting Pay Ratio Between BankBoston Execs and Work Force, Associated Press, April 23, 1999.

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[149] Stephen Franklin and Kathy Bergen, Increase in Stock Options, Grants Triggers Explosion in CEO Pay, *Chicago Tribune*, April 23, 2000.

[150] Ibid.

[151] Paul V. Galvin founded what became known as Motorola in 1928. His son, Robert W. Galvin, was later the company's top exec. See the company history at www.motorola.com.

[152] Karen Rothmyer, Protests Rise Along With Pay of Executives, *Newsday*, April 16, 1995.

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[154] Thomas G. Donlan, Out of the Park: Soaring Executive Pay Is a Sign of Economic Health, *Barron's*, May 4, 1998.

[155] Ronald Alsop, Top Business Schools, *Wall Street Journal*, April 30, 2001.

[156] Is business school academic training any good? American business seems to think so. Corporations routinely foot the business school tuition bills for their executives-in-training — *and* give their future

leaders paid time off to take business school courses. Tuitions, for the record, can now top $100,000 at the nation's most highly regarded business school programs. Ronald Alsop, Top Business Schools, *Wall Street Journal*, April 30, 2001. About a third of the nation's 500 biggest companies are currently run by chief executives with graduate school business degrees. Becky Yerak, As Dot-coms Fall, MBAs Coming Back, *USA Today*, September 25, 2000. This story cites a survey by *Chief Executive* magazine and the Spencer Stuart executive search firm.

[157] "It's not fair to compare them [top executives] with hourly workers," says Ira Kay, a pay consultant at Watson Wyatt Worldwide. "Their market is the global market for executives." R.C. Longworth, CEOs Bringing Home Bigger Bucks Than Ever, *Chicago Tribune*, August 28, 2001.

[158] Pay critic Graef Crystal adds other factors into the supply-and-demand mix. "Labor economists will tell you that there shouldn't be a major change in pay without a change in supply or demand. Has there been an increase in demand for major-company CEOs? No — they keep merging. A decrease in supply? Hell, no. Harvard Business School turns out more than ever, and we have all these women we keep turning down." Thomas A. Stewart, The Leading Edge: Can Even Heroes Get Paid Too Much? *Fortune*, June 8, 1998.

[159] "Market forces determine how well the firm does within the marketplace, but not necessarily how well the individuals within the firm do," writes historian James Huston, who adds that "compensation is a managerial, not a market, determination." James L. Huston, *Securing the Fruits of Labor: The American Concept of Wealth Distribution 1765-1900*. Baton Rouge: Louisiana State University Press, 1998, 388.

[160] Matthew Miller, A Market All Their Own Caters to CEOs, *Los Angeles Times*, April 19, 2001.

[161] McClellan, in his column, proposed a maximum wage for executives set at $171,000. Bill McClellan, OK, Here's One Argument Against a Maximum Wage, *St. Louis Post-Dispatch*, September 6, 1999.

[162] Michael Liedtke, Webvan's CEO Resigns, Associated Press, April 14, 2001.

[163] Christopher Byron, The Man for Yahoo!: Webvan's Shaheen, He Wuz a Contender, *New York Observer*, March 19, 2001, and Michael Liedtke, Webvan's CEO Resigns, Associated Press, April 14, 2001.

[164] Shaheen also received a $500,000 salary and a bonus offer up to $250,000. Michael Liedtke, Webvan's CEO Resigns, Associated Press, April 14, 2001. Option value from Byron, The Man for Yahoo!: Webvan's Shaheen, He Wuz a Contender.

[165] Keith Regan, Shaheen and Webvan Take Each Other for a Costly Ride, *E-Commerce Times*, May 18, 2001.

[166] Michael Liedtke, Webvan's CEO Resigns, Associated Press, April 14, 2001.

[167] Ibid.

[168] Webvan, a most generous employer, "also allowed Shaheen to repay a $6.7 million loan with only $150,000 worth of Webvan stock." Michael Mahoney, Former Webvan CEO to Get $375,000 Annually - For Life, *E-Commerce Times*, May 17, 2001.

[169] Tim Carvell, Adam Horowitz, and Thomas Mucha, The 101 Dumbest Moments in Business, *Business 2.0*, April 2002.

[170] Ann Marsh, Meet the Class of 1996, *Forbes*, October 14, 1996.

[171] Robert J. Samuelson, Gates Isn't God (or Even Henry Ford), *Washington Post*, August 27, 1997.

[172] Lisa DiCarlo, The Transformers: The $100,000 Monopoly, *Forbes.com*, May 10, 2002.

[173] Stephen Manes and Paul Andrews, *Gates*. Cited by Robert J. Samuelson, Gates Isn't God (or Even Henry Ford), *Washington Post*, August 27, 1997.

[174] In the 2001 fiscal year, Microsoft boasts $25 billion in annual sales and $11.7 billion in profits — and ends the year with "a cash horde approaching a mind-boggling $40 billion." DiCarlo, The Transformers: The $100,000 Monopoly.

[175] Barry Bluestone and Bennett Harrison, *Growing Prosperity*. Boston: Houghton Mifflin Company, 2000, 18.

[176] Gar Alperovitz, Distributing Our Technological Inheritance, *Technology Review*, October 1994.

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[178] Alperovitz, Distributing Our Technological Inheritance.

[179] Gates Sr. criss-crossed the United States with Chuck Collins, his co-author on *Wealth and Our Commonwealth: Why America Should Tax Accumulated Fortunes*. Boston: Beacon Press, 2002. They discussed the issues around wealth their book raises.

[180] Amy Barrett, Affairs of Estate: Questions for William H. Gates Sr., *New York Times Magazine*, March 18, 2001.

[181] Gates testified before the Senate Subcommittee on Taxation and IRS Oversight in late March. A version of his remarks later appeared as an op-ed. William H. Gates Sr., A Tax Break's Unfortunate Legacy, *Washington Post*, May 25, 2001.

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[183] This aphorism has also been credited to billionaire oilman J. Paul Getty.

[184] Brian L. Roberts, Broadband, Cable, and Comcast, address to the Washington Economic Club, January 24, 2001.

[185] Frank Ahrens, Roberts A Low-Key Leader for Cable Giant, *Washington Post*, December 21, 2001.

[186] Roberts, Broadband, Cable, and Comcast.

[187] Smith, *The Wealth Creators: The Rise of Today's Rich and Super-Rich*, 37.

[188] David R. Francis, The CEO Makes What? Return of a Fair-pay Debate, *Christian Science Monitor*, March 27, 2000.

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[192] Dan Seligman, Want to Get Rich? Don't Get Born in Afghanistan, *Forbes*, October 13, 1997.

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[202] Paul Krugman, Steps to Wealth, *New York Times*, July 16, 2002.

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[206] The figures, for 1998, come from the Kennedy Information Research Group. Daniel Akst, Telling Them What They'll Pay to Hear, *New York Times*, July 4, 1999.

[207] Ibid.

[208] Call Him a Cockeyed Optimist, *FOMC Alert* (Southern Finance Project), March 25, 1997.

[209] Robert K. Miller, Jr. and Stephen J. McNamee, The Inheritance of Wealth in America, in *Inheritance and Wealth in America*, edited by Robert K. Miller, Jr. and Stephen J. McNamee, New York and London: Plenum Press, 1998, 1-2.

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[211] Michael Parenti, The Super Rich Are Out of Sight, *Dollars & Sense*, May 15, 1998.

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[7] Robert H. Frank, *Luxury Fever: Money and Happiness in an Era of Excess.* Princeton: Princeton University Press, 1999, 225-226.

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[49] Ibid. T. Rowe Price assumed that the $36,000 annual expenditures would be adjusted to keep up with inflation.

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[51] Ibid. "Among households headed by a person approaching retirement, only households with wealth holdings above $1 million saw consistent increases in their wealth, after inflation," Wolff noted. "All other wealth classes, even those with between $500,000 and $1 million in net worth, saw their retirement wealth fall from 1983 to 1998."

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[61] David Moberg, Temp Slave Revolt, *In These Times*, July 10, 2000.

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[105] Jared Bernstein, Chauna Brocht, and Maggie Spade-Aguilar, *How Much Is Enough?* Washington, D.C.: Economic Policy Institue, 2000, 1.

[106] Ibid., 47-50.

[107] Ibid., 64-67.

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[111] E.J. Dionne Jr., A Mayoral Confession, *Washington Post*, February 26, 1999.

[112] Ibid.

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[115] Cait Murphy, Are the Rich Cleaning Up? *Fortune*, September 4, 2000.

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[129] Ibid.

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[159] Holly Sklar, Net Gains, Mass Losses, *Atlanta Constitution*, April 9, 1999.

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[167] How It Really Works, *Business Week*.

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[186] Nieves, Many in Silicon Valley Cannot Afford Housing, Even at $50,000 a Year.

[187] Andrew Beveridge, a sociologist at Queens College, tracked this trend in a 2001 report for the *New York Times*. After adjusting Census numbers from the start and end of the 1990s for inflation, Beveridge found median family income down from $2,900 to $4,400 in states where wealthy people did particularly well in the boom years. Concluded the *Times*: "The poor got a little poorer, the rich got a lot richer and the large group in the middle emerged slightly worse off than when the decade began." Janny Scott, In 90's Economy, Middle Class Stayed Put, Analysis Suggests, *New York Times*, August 31, 2001.

[188] Fairfax, according to researchers from Claritas Inc., was the first of more than 3,000 jurisdictions in the United States to reach this $90,000 distinction. Dan Eggen, Tasting the High Life, *Washington Post*, March 11, 2001.

[189] Ibid.

[190] Dan Eggen, Pampered and Privileged, *Washington Post*, March 13, 2001.

[191] Dan Eggen, Feeling Pinched on $90,000, *Washington Post*, March 12, 2001.

[192] Ibid.

[193] Business cycle booms are tracked by the National Bureau of Economic Research. Robert J. Samuelson, The Biggest Boom Ever, *Washington Post*, January 26, 2000.

[194] Louis Uchitelle, 107 Months, and Counting, Expansion Redefines Economy's Limits, *New York Times*, January 30, 2000.

[195] Ibid.

[196] Of 129 common occupations, twenty-four paid wages and salaries that didn't keep up with inflation. Patrick Barta, The Longest Boom, *Wall Street Journal*, February 1, 2000.

[197] Ibid. The data come from Dismal Sciences, an economic consulting firm in Pennsylvania.

[198] Miller, Economy Sets Records for Longevity and Inequality.

[199] D'Vera Cohn, Poverty Down, Income Steady in U.S. Survey, *Washington Post*, September 26, 2001.

[200] The data come from the U.S. Bureau of the Census Annual Demographic Survey, CPS. Paul Ryscavage, *Income Inequality in America*. Armonk, New York: M. E. Sharpe, 1999, 51.

[201] Ibid., 52.

[202] Ibid., 51. The data come from the U.S. Bureau of the Census Annual Demographic Survey, CPS.

[203] Ibid., 51-52. The top 5 percent took 17.5 percent of the nation's income in 1947, 15.5 percent in 1973. Between 1947 and 1973, families at the 95th percentile saw their incomes jump, after inflation, by 91 percent. A nice boost, to be sure, but middle-class families did even better. Between 1947 and 1997, families at the bottom of the middle class, the 40th percentile, saw their incomes increase by 101 percent. Families at the 60th percentile, saw their incomes leap by 107 percent.

[204] The exact figure: 79 percent. Don L. Boroughs, with Monika Guttman, Maria Mallory, Scott McMurray, and David Fischer, Winter of Discontent? *US News & World Report*, January 22, 1996.

[205] Edward N. Wolff, How the Pie Is Sliced: America's Growing Concentration of Wealth, *American Prospect*, Summer 1995.

[206] Ibid.

[207] The top 1 percent took 8.5 percent of the nation's income in 1992, 14.5 percent in 2000. Arthur B. Kennickell, A Rolling Tide: Changes in the Distribution of Wealth in the U.S., 1989-2001, Federal Reserve Board, March 3, 2003. Accessed from www.federalreserve.gov/pubs/oss/oss2/scfindex.html, 18, 21.

[208] Census Data Show Increases in Extent and Severity of Poverty and Decline in Household Income, Center on Budget and Policy Priorities, news release, September 24, 2002. The Census Bureau began keeping track of income shares by fifth in 1967. The 2001 figures also set a record low for the second fifth and tied the record low for the fourth fifth.

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CHARITY AND COMPASSION

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[2] Ibid.

[3] Kathleen McGowan, #17 San Diego, CA, Joan Kroc, *Worth*, March 2002.

[4] Kenneth Cooper, High-Tech Gifts to Education Set Record, *Washington Post*, January 21, 2000.

[5] Stuart Silverstein and Charles Ornstein, Record Donation to UCLA, *Los Angeles Times*, May 7, 2002.

[6] Jamie Waugh, #50 Louisville, KY, Owsley Brown Frazier, *Worth*, March 2002.

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[9] Joann S. Lublin, Living Well, *Wall Street Journal*, April 8, 1999.

[10] Douglas Gantenbein, #13 Seattle, WA, Bill Gates, *Worth*, March 2002.

[11] Les Blumenthal, Gates May Be Easy Target, but Not for Nader, *Tacoma News Tribune*, August 16, 1998.

[12] Michelle Quinn, Being Well-off Comes with a Different Set of Pressures, *San Jose Mercury-News*, August 16, 1999. The second part of this quote is the reporter's paraphrase.

[13] Peter Dobkin Hall and George E. Marcus, "Why Should Men Leave Great Fortunes to Their Children?" Class, Dynasty and Inheritance in America. Accessed from http://ksghome.-harvard.edu/~.phall.hauser.ksg/inheritance.html.

[14] Ibid.

[15] Ibid.

[16] Lawrence Ingrassia, In the Money, *Wall Street Journal*, January 11, 1999.

[17] David Johnston, What Bill Gates Needs to Learn About Philanthropy, *Business and Society Review*, Winter 1995.

[18] Ingrassia, In the Money.

[19] The Challenge for America's Rich, *Economist*, May 30, 1998.

[20] Steve Forbes, Why the List, *Forbes*, October 8, 2001.

[21] Ibid.

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[23] Lynda Gorov, Spreading the Wealth, *Boston Globe*, November 28, 1999.

[24] Kent Allen, Charitable Giving Soared in '99 to Record $190 Billion, *Washington Post*, May 25, 2000.

[25] Ibid. The increases slowed after 1999, but still continued, all the way up to $160.7 billion in 2001. Charitable Giving Reaches $212 Billion, news release, American Association of Fundraising Counsel, June 20, 2002, Accessed from www.aafrc.org/press3.html.

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[28] Robert D. Putnam, *Bowling Alone: The Collapse and Revival of American Community*. New York: Simon & Schuster, 2000, 123.

[29] James Glassman, Tightfisted at the Top, *Washington Post*, December 17, 1996.

[30] Joseph Grundfest, Reasons for Giving All You've Got to Give, *Wall Street Journal*, January 6, 1995.

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[34] Monique Yazigi, When You Got It, Flaunt It, *New York Times*, January 26, 2000.

[35] Adam Clymer, Cheney More Generous by His Own Numbers, *New York Times*, September 6, 2000.

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[37] Ibid.

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Reasons for Giving All You've Got to Give, *Wall Street Journal*, January 6, 1995.

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[44] Grundfest, Reasons for Giving All You've Got to Give.

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[50] Claude Rosenberg Jr, Sharing the Wealth, *American Benefactor*, Spring 1998.

[51] NewTithing Group's Affordable Donations Y2000 (National) by Average Tax Filer. Accessed from www.newtithing.org/content/2001national.htm.

[52] Ibid. Families on the next rung of America's economic ladder, those that made between $500,000 and $1 million in 2000, could have afforded to give about five times more than they actually gave, about $17.3 billion. The next highest rung, the taxpayers with between $200,000 and $500,000 in annual income, could have afforded to give $17.7 billion more, about three times more than they actually did. Together, these top three rungs — about 3 percent of the taxpaying public — could have given 96 percent of the charitable contributions that Americans could have comfortably made in the year 2000 but didn't.

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[63] How the Other Half Gives to Charities, *New York Times*, December 20, 1998.

[64] Nicholas Von Hoffman, Our Mighty Plutocrats Are Charity Cheapskates, *New York Observer*, December 18, 1995.

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[70] Maria Puente, Move Over, Slot Machines: Make Way for Art, *USA Today*, October 5, 2001.

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[76] Of this total, $61 went directly to the St. Louis Museum of Art. The rest went to other museums and even the local zoo. 2001 Tax Rate for Real and Personal Property in the City of St. Louis, MO. City of St. Louis. Accessed from http://stlouis.missouri.org/government/proptax/2001taxrate.html.

[77] Dobrzynski, Blockbuster Shows Lure Record Crowds into U.S. Museums.

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THE INEFFECTIVE ENTERPRISE

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[4] Edward E. Lawler, III, *From the Ground Up: Six Principles for Building the New Logic Corporation.* San Francisco: Jossey Bass, 1996, 22.

[5] This phrase from the work of Edward Lawler is quoted in Barry M. Staw and Lisa D. Epstein, What Bandwagons Bring: Effects of Popular Management Techniques on Corporate Performance, Reputation, and CEO Pay, *Administrative Science Quarterly*, September 2000.

[6] Dale Dauten, Give Workers Room to Rise to Occasion, *Chicago Tribune*, June 25, 2000.

[7] "Providing frontline employees with the skills, motivation, and freedom to improve how they do their jobs can greatly increase both productivity and worker satisfaction," a Brookings Institution report concluded in 1995. Yet "substantive employee involvement remains the exception in the U.S. work force." David I. Levine, *Reinventing the Workplace: How Business and Employees Can Both Win*. Washington, D.C., The Brookings Institution, 1995, 1.

[8] Lawler, *From the Ground Up: Six Principles for Building the New Logic Corporation,* 6.

[9] George Easton of Emory University and Sherry Jarrell of Georgia State, the study authors, started with over five hundred companies reputed to be involved in "total quality management." After reviewing information on the companies, Easton and Jarrell ended up with only 108 companies they believed to be making bona fide efforts to implement total quality management. In general, the two scholars noted, "whether or not a firm has seriously pursued TQM cannot be determined by relying on the firm's public pronouncements." G. S. Easton and S. L. Jarrell, The Effects of Total Quality Management on Corporate Performance: An Empirical Investigation, *Journal of Business*, April 1998.

[10] This going through the motions, the two researchers noted, actually made some sense — for top executives. Just by talking in public about empowering employees, Staw and Epstein discovered, top executives could heighten "external admiration" of their leadership and boost their eventual compensation. Staw and Epstein, What Bandwagons Bring: Effects of Popular Management Techniques on Corporate Performance, Reputation, and CEO Pay.

[11] William Lee, a leading management consultant, estimates that "fewer than 10 percent of American employers (probably *far* fewer) work for firms that practice true, systemic employee participation." William G. Lee, *Mavericks in the Workplace*, New York: Oxford University Press, 1998, 60.

[12] "The best way to assure that decisions are made at lower levels is to have very few levels of management," one analyst noted, "so that managers cannot make all the decisions." Edward F. Lawler III, *High-Involvement Management.* San Francisco: Jossey-Bass Publishers, 1991, 194.

[13] J. Burgess Winter, the chief executive of Tucson's Magma Copper company, was one executive in the 1990s who took empowering rhetoric seriously. He was so committed to building a real partnership with his workers that, in 1991, he signed a fifteen-year contract with their union. Most contracts run for three or four years. Magma Copper's partnership paid quick dividends. By 1995, only one metal sector company in the entire United States boasted a higher profit rate than Magma. David M. Gordon, *Fat and Mean: The Corporate Squeeze of Working Americans and the Myth of Managerial "Downsizing."* New York: The Free Press, 1996, 89-90.

[14] Quoted in Alan Downs, The Wages of Downsizing, *Mother Jones*, July-August 1996. See also Gordon, *Fat and Mean: The Corporate Squeeze of Working Americans and the Myth of Managerial "Downsizing,"* 5.

[15] Downs, The Wages of Downsizing. The American Management Association looked at just over five hundred companies that had shed employees in 1994 and 1995. The number of managers at these companies had barely dipped at all, down just 1.1 percent. At these same companies, non-managerial employees had lost their jobs at a rate seven times faster.

[16] A conclusion reached by Anthony Carnevale and Stephen Rose, described in Too Many Managers, *Economic Notes*, February 1998.

[17] Managerial joblessness was "approaching historic lows." Alex Markels, Firms' Demand for Managers Is Growing Despite Layoffs and Restructurings, *Wall Street Journal*, September 26, 1996.

[18] Peter F. Drucker, *The Changing World of the Executive*. New York: Times Books, 1982, 22.

[19] Drucker would stick to this position over the ensuing years, even as executive pay soared. In the mid 1990s, with CEOs taking home compensation that outpaced worker pay by *hundreds* of times, Drucker was still contending, notes biographer Jack Beatty, "that the ratio of pay between worker and executive can be no higher than twenty to one without injury to company morale." Jack Beatty, *The World According to Peter Drucker*. New York: The Free Press, 1998, 83.

[20] Levine, *Reinventing the Workplace: How Business and Employees Can Both Win*, 53.

[21] Eileen Applebaum, Thomas Bailey, Peter Berg, and Arne L. Kalleberg, *Manufacturing Advantage: Why High-performance Work Systems Pay Off.* Ithaca, New York: Cornell University Press, 2000, 44.

[22] Tim Jackson, *Inside Intel: Andy Grove and the Rise of the World's Most Powerful Chip Company*. New York: Dutton, 1997, 36-38.

[23] Ibid.

[24] David Packard, *The HP Way: How Bill Hewlett and I Built Our Company*. New York: HarperBusiness, 1995, 80-81.

[25] Ross Laver, Takethemoneyandrun.com, *Maclean's*, January 17, 2000.

[26] High-tech companies, in the 1980s, would become the first American enterprises to circulate options broadly. They didn't, however, invent the use of options for employees. The Pfizer pharmaceutical company introduced one of the "first broad-based stock-option programs" in 1952. George T. Milkovich and Jennifer Stevens, 100 Years of Change, *ACA Journal* (American Compensation Association), First Quarter 2000.

[27] Evelyn Richards, Playing the Options Game, *San Jose Mercury-News*, August 15, 1999.

[28] Jackson, *Inside Intel*, 84.

[29] Ibid., 110-111. At meetings, Grove "seemed to take a positive delight in shouting at people."

[30] Ibid., 114-115.

[31] Ibid,, 318.

[32] Ibid., 300-301.

[33] Laver, Takethemoneyandrun.com.

[34] Rachel Konrad, Layoffs May Spoil HP Workers' Allegiance, CNET News.com, July 26, 2001.

[35] John T. Ward, $90 Million Package Won Hewlett-Packard a New CEO, *Newark Star-Ledger*, September 23, 1999.

[36] Ibid.

[37] Raj Jayadev, Silicon Valley's Underbelly, *San Francisco Chronicle*, January 20, 2002.

[38] John T. Ward, $90 Million Package Won Hewlett-Packard a New CEO, 47.

[39] Jon Van, Recent Moves Mar CEO's Record, *Chicago Tribune,* September 5, 2001.

[40] Konrad, Layoffs May Spoil HP Workers' Allegiance.

[41] Ibid.

[42] Bob Batchelor, Downsize This: The Hewlett-Packard Merger with Compaq Won't Produce Any Winners, *American Prospect Online*, March 25, 2002.

[43] Ibid.

[44] "Employees," notes one scholar in the field, "are inherently neither motivated nor unmotivated to perform effectively; their motivation depends on the situation, how they perceive it, and what rewards they need and value." Edward E. Lawler, III, The New Pay: A Strategic Approach, *Compensation and Benefits Review*, July-August 1995.

[45] "Despite the anecdotal connection," *Business Week*'s Jennifer Reingold pointed out, "no academic has proven that higher pay creates higher performance." Jennifer Reingold, Special Report: Executive Pay, *Business Week*, April 19, 1999.

[46] Lawler, The New Pay: A Strategic Approach.

[47] Geoffrey Colvin, What Money Makes You Do, *Fortune*, August 17, 1998.

[48] Employees chasing individual rewards may even "engage in deleterious activities like sabotaging the work of other employees in an effort to garner more of the organization's compensation resources." Matt Bloom, The Performance Effects of Pay Dispersion on Individuals and Organizations, *Academy of Management Journal*, February 1999.

[49] Diane Stafford, Losses Reflect Pay Disparity, *Kansas City Star*, November 13, 1999.

[50] Lawler, *From the Ground Up: Six Principles for Building the New Logic Corporation*, 207.

[51] "The late W. Edwards Deming, a guru of quality control, was a particularly vigorous opponent of trying to pay for performance, as Andrea Gabor points out in *The Capitalist Philosophers* (Times Books). Deming believed that if you hired the right people for the right jobs and put them into the right environment, everyone would perform pretty well." Daniel Akst, On the Contrary Money Can Motivate. So Can Love of the Job, *New York Times*, April 1, 2001.

[52] And the most divisive rewards of all? The reward system in place across America as the twentieth century ended. "The most extreme version of a divisive pay system occurs when only senior management is heavily rewarded for stock performance and short-term profitability." Lawler, *From the Ground Up: Six Principles for Building the New Logic Corporation*, 213.

[53] Milkovich and Stevens, 100 Years of Change.

[54] Ibid. By the early 1950s, Ford Motor was actually distributing Scanlon plan implementation kits to other companies.

[55] Luis H. Gomez-Mejia, Theresa M. Welbourne, and Robert M. Wiseman, The Role of Risk Sharing and Risk Taking Under Gainsharing, *Academy of Management Review*, July 2000.

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[62] Ibid., 193-194.

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[66] Ibid.

[67] Wilkinson, *Unhealthy Societies: The Afflictions of Inequality*, 182.

[68] Ibid., 196.

[69] Ibid., 215.

[70] Ibid., 184.

[71] Ibid., 215.

[72] Ibid., 176.

[73] Ibid.

[74] Sarah Ramsay, Remedy Presented for Health Inequalities in England, *Lancet*, November 28, 1998.

[75] Melanie Phillips, An Unhealthy Interest in the Wealth Gap, *Sunday Times* (London), November 29, 1998.

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[79] Ibid., 185.

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[84] Ibid., 114.

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Edition, Scientific and Technical Publication No. 587, Pan American Health Organization Pan American Sanitary Bureau, Regional Office of the World Health Organization. An executive summary is available at www.paho.org/english/DBI/MDS/HIA_exec_summary.pdf.

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A FRAYING SOCIAL FABRIC

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[54] Burtless, Growing American Inequality in Income.

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[87] Scott Wilson, Venezuelan President Warns of Coup Attempt, *Washington Post*, December 6, 2002.

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[90] Pam Belluck, Reason Is Sought for Lag by Blacks in School Effort: Sensitive Issue Debated, *New York Times*, July 4, 1999.

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A PRICE TOO HIGH

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every American who loves country above ease will enlist." Press Comment on President's Plan, *New York Times*, April 28, 1942.

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[22] Wilentz, America's Lost Egalitarian Tradition.

[23] Ibid. "By expanding the concept of labor to include all gainfully employed persons," notes historian Sean Wilentz, the interests opposing Jackson "at once blurred class distinctions, upheld the labor theory of value, and presented themselves as the true friends of the toiling masses."

[24] Huston, *Securing the Fruits of Labor*, 319.

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[121] Weisman, *The Great Tax Wars*, 250-251.

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[230] The reduction to 65 percent, Kennedy administration officials assured Congress, had become absolutely necessary. The "present rates up to 91 percent not only check consumption but discourage investment." President's 1963 Tax Message. Hearings before the Committee on Ways and Means, Eighty-eighth Congress, First Session, on the Tax Recommendations of the President contained in his message transmitted to the Congress, January 24, 1963. February 6, 7, 8, 1963, 9.

[231] Ibid., 544.

[232] Ibid., 732. Some Republicans had pushed for a deeper cut, down to 42 percent.

[233] Collins, *More: The Politics of Economic Growth in Postwar America*, 60.

[234] "Beginning in 1970," economist James Galbraith notes, "the government abandoned the goal of full employment and instead turned its attention to a fight against inflation." That fight was fought with higher interest rates, and those rates sparked a recurring series of recessions that, Galbraith argues, would batter the American middle class. James K. Galbraith, *Created Unequal: The Crisis in American Pay*. A Twentieth Century Fund Book. New York: The Free Press, 1998, 9.

[235] Weisman, *The Great Tax Wars*, 357.

[236] Ibid., 357.

[237] Collins, *More: The Politics of Economic Growth in Postwar America*, 177.

[238] Wilentz, America's Lost Egalitarian Tradition.

[239] Phillips, *Wealth and Democracy*, 333.

[240] "The IRS took such a big chunk of my earnings," he would later recall, "that after a while I began asking myself whether it was worth it to keep on taking work." Collins, *More: The Politics of Economic Growth in Postwar America*, 195.

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[251] This includes income taxes and payroll taxes. Phillips, *Wealth and Democracy*, 96.

[252] Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002–2011*, Washington, D.C., January 2001, 139.

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[254] Louis Uchitelle, A Surplus Built on Bricks of Income Inequality, *New York Times*, February 28, 1999.

[255] Spencer Rich, Number of Poor Americans Increases to 39.3 Million, *Washington Post*, October 7, 1994.

[256] Ibid.

[257] James MacGregor Burns and Georgia Sorenson, *Clinton-Gore Leadership and the Perils of Moderation*. Simon & Schuster, 1999, 338.

[258] Wilentz, America's Lost Egalitarian Tradition.

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LIFE IN A TEN TIMES RULE AMERICA

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[5] Without the income averaging, the household would have paid, in its $500,000 income year, a tax of $230,000, a sum that would have equaled 10 percent of the household's first $300,000 of income that year and the difference between the $300,000 maximum and the household's $500,000 income.

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estate tax, "estates that have tax liability give two to three times as much to charity as estates without tax liability." William H. Gates Sr. and Chuck Collins, *Wealth and Our Commonwealth: Why America Should Tax Accumulated Fortunes*. Boston: Beacon Press, 2002, 127-128.

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A STRATEGY FOR CHANGE

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