THE GREEDY AS DESERVING

IF YOUR SALARY WERE DOUBLED, would you work twice as hard? What if your earnings were quintupled? Would you become five times more productive? Probably not. Even the most rewarding of rewards, at some point, no longer make any sense as incentives.

Corporate America reached — and passed — that point some time ago. An executive who stands to make $100 million, most reasonable observers would agree, is not going to work twice as hard as an executive who stands to take home only $50 million.[1] Nor, for that matter, is an executive with a shot at $10 million going to work ten times harder than a colleague with a chance to make only $1 million. Why then would any corporation let an executive walk off with $100 million in annual compensation? Or $50 million? Or any princely sum that has, in the real world, little practical incentive value? Corporate America has an answer. Those who are paid considerably more than the rest of us simply deserve considerably more than the rest of us.

At century's end, few top corporate executives — and few Americans of any significant means — doubted they fully deserved their good fortune. In one survey of America's most affluent 1 percent, conducted by *Worth* magazine, 98 percent of the wealthy people polled attributed financial success to "greater determination."[2] Almost as many of the wealthy surveyed, 95 percent, credited success to "greater ability or talent," and 91 percent told pollsters that the financially successful have "greater intelligence."

All this hard work, talent, and intelligence, the wealthy appear to believe, contribute much more to financial success than mere happenstance — or unsavory personal qualities. The wealthy polled by *Worth* rated intelligence over twice as important to accumulating wealth as "knowing the right people" and talent twice as important as "luck." A willingness to take risks, they suggested, makes success in life four times more likely than "being born into privilege." What about ruthlessness? Only 2 percent of the wealthy polled called "being more ruthless" a significant key to success.

In sum, the wealthy agree, people worth millions are determined, smart, able, and bold.

And rare.

Or so corporate America would add. People who combine determination, intelligence, ability, and boldness, corporate leaders believe, aren't standing at

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every corner. CEOs, *Corporate Board* magazine explains, "are all individuals with a scarce talent." They deserve to be compensated as the "scarce high-talent individuals" they are.[3]

So quit quibbling, America, about excessive executive salaries.

"It's easy to paint these salaries as bad for society," one corporate insider, executive-placement expert Jeff Christian, argued midway through the 1990s, "but these are truly people with rare skills."[4]

"If you have a strong chief executive, be thankful," agreed Albert J. Dunlap, then the chief executive at Scott Paper. "There are damn few good ones out there."[5]

FOR MOST OF THE 1990S, almost everyone in corporate America counted Al Dunlap as a truly "rare" talent, one of the "damn few good ones" who deserved whatever good fortune came his way. At his prime, Dunlap would be as admired as any executive in America. Business magazines plastered his picture on their covers.[6] Universities and lawmakers jostled for his wisdom.[7] Fellow corporate executives envied his gumption.[8]

Dunlap even awed corporate America's watchdogs. In 1995, *Newsweek* asked one of these watchdogs, executive pay critic Nell Minow, about a nine-digit windfall Dunlap had just scored at Scott Paper.

"He deserves," Minow replied, "all the money he gets."[9]

By the mid 1990s, Dunlap had been dazzling corporate America for the better part of two decades. He had vaulted, with ease, from one executive suite to another, his legend growing at every stop along the way. Here was a West Point-trained, take-no-prisoners trouble-shooter willing and able to take on bloated corporate bureaucracies — and make stockholders money.

"Al goes in like a chainsaw," one Dunlap admirer noted. "He goes in and cuts away all the fat and leaves a great sculpture."[10]

The more Dunlap carved, the wider Wall Street smiled. At struggling paper-cup maker Lily-Tulip, for instance, "Chainsaw Al" fired over a quarter of the company's salaried employees. Lily-Tulip shares soared by more than 1,100 percent.[11] Dunlap epitomized, for Wall Street, the ideal CEO. He would do battle for shareholders first, last, and always. What anybody else thought, he delightedly insisted, would not interest him in the least.

"The price of leadership is criticism," Dunlap loved quipping. "If you want to be liked, get a dog."[12]

In Philadelphia, the Scott Paper board of directors lapped up Dunlap's *shtick*. He seemed just what their once dominant, now struggling, company needed.[13] In 1993, the company had lost $277 million.[14] Something had to be done. Something big. In April 1994, Scott Paper's directors made the big move. They named Dunlap the first Scott Paper CEO ever hired from outside company ranks. Dunlap, as Scott Paper's new CEO, would waste no time. Just two months after arriving, he announced plans to slice the company's workforce by 35 percent, over eleven thousand jobs.[15] He also almost immediately deprioritized — and deep-sixed — expenditures that didn't directly pump up Scott Paper's quarterly earnings. The company's budget for research and development would be halved. The company's charitable contributions would be ended. The new Scott Paper even reneged on a company pledge to the Philadelphia Museum of Art.[16]

This gesture of less than brotherly love would soon be topped by another. Dunlap decided to yank Scott Paper out of Philadelphia, the company's home ever since 1879, and open a new headquarters in Florida's Boca Raton. From Dunlap's perspective, the move made perfect sense. He already owned a $1.8 million Boca Raton mansion.

For consumers, neither the move to Boca Raton nor any other Dunlap maneuver would ever make much sense. During Dunlap's tenure, prices on Scott Paper household staples jumped repeatedly, some at double-digit rates. Consumers would not be pleased. Scott Paper products, under Chainsaw Al, actually lost market share.[17]

Wall Street didn't care. Dunlap had Scott Paper's share price soaring, up 225 percent.[18] And the best, the confident CEO told investors, was yet to come. Scott Paper, he proclaimed, had "a great future ahead."[19]

In fact, Scott Paper had no future at all. Dunlap had not been improving the company. He had been "prettying" it up for sale to the highest bidder, as savvy observers had realized early on.[20] In July 1995, just fifteen months after taking charge, Dunlap clinched the deal that would, later that year, end Scott Paper's long history as an independent enterprise. Competitor Kimberly-Clark, the Kleenex company, would buy out Scott Paper and swallow the company up whole — all except Dunlap and a handful of his executive pals. They would be handed, under the terms of the merger deal, ample severance packages.[21]

How ample? Dunlap's marketing chief, Richard Nicolosi, would walk off with $17.2 million for his sixteen months of distinguished Scott Paper service. Basil Anderson, the company's chief financial officer, would leave with $14.9 million. Russell Kersh, a Dunlap confidant since the glory days at Lily-Tulip, would exit with $16.4 million.[22]

Dunlap, naturally, would do considerably better.[23]

"After 20 months of intense work — and thanks in part to my own stock purchases, options, and other incentives — I left Scott $100 million richer than when I arrived," Dunlap would later tell the world proudly.[24]

Other Scott Paper employees would not fare as well. Jerry Chambless, a $60,000-a-year plant supervisor, was forty-nine when he lost his job in Dunlap's chainsaw massacre.[25] Unable to find another job, he suffered a stroke that left him in a wheelchair.

"I hold Al Dunlap fully responsible for what's happened to my husband," the stricken supervisor's wife told reporters. "Look at all the lives he's destroyed."[26]

Dunlap would have little trouble deflecting such angry attacks, thanks, no doubt, to years of training by the nation's finest public relations talent.

"I had a corporation where every person stood the chance of losing their job, so I got rid of 35 percent of the people," a well-prepped Dunlap would tell critics. "But 65 percent of the people have a more secure future than they've ever had."[27]

What about his $100 million windfall? A little excessive perhaps?

"I created six and half billion of value," Dunlap informed a Lehrer News Hour audience. "I received less than 2 percent of the value I created."[28]

Dunlap's clever counters would all be baloney. The 65 percent of Scott Paper employees who survived his chainsaw, for instance, enjoyed no job security. Just one day after the merger, Kimberly-Clark announced plans to eliminate eight thousand more jobs.[29]

And that $6.5 billion of "new" value Dunlap claimed he created?

"What galls many former executives, employees, and union leaders," *Business Week* would report, "is their belief that Dunlap and his team took credit for improvements that had been in the works for months, if not years."[30]

Dunlap, in the end, added no real value to Scott Paper. He merely, as the Wharton business school's Peter Cappelli would explain, "redistributed income from the employees and the community to the shareholders."[31] The company's shares did soar — but not because Dunlap had made the company more effective. Wall Street bid up Scott Paper because investors figured Dunlap would do what he always did: "cut jobs, divest assets, and then ditch the company at a tidy profit."[32]

Midway through 1996, six months after Dunlap's grand "success" at Scott Paper, Wall Street would exult in the news of still another Dunlap investing opportunity. Sunbeam, a famous but lackluster appliance maker, had just named Dunlap its top executive. The announcement came on July 18. The next day, Sunbeam shares leaped nearly 50 percent. In just a day, Dunlap had made Sunbeam shareholders more than half a billion dollars.[33]

That was good news, of course, for Sunbeam shareholders — and not so bad news for Dunlap either. He had received 2.5 million in stock options to join Sunbeam and another million shares of restricted stock. Dunlap, noted one analysis, made $48 million from Sunbeam before he "fired anyone or barked a single order as the new chief executive."[34]

But no one had to wait very long for Dunlap to start firing. Just a few months after taking over, the new CEO announced plans to shut down two-thirds of Sunbeam's factories and eliminate six thousand jobs, half the company's workforce.[35] Why the rush? At Scott Paper, cutting a workforce by a third had earned Dunlap $100 million in twenty months. Was he simply too eager to see how much he could make if he cut a workforce in half?

In any case, Sunbeam would pose a challenge Dunlap had never before encountered. The company had already been chainsawed — before Dunlap arrived.[36] Dunlap would only be able to get Sunbeam moving again, observers predicted, if he faced up to the challenge of actually overseeing real product development.[37] But how was Sunbeam going to roll out great new products, skeptics wondered, with a workforce that had been cut in half?[38]

Sunbeam couldn't. The company, Dunlap had promised, would be "making money" within a year.[39] But Dunlap's first anniversary came and went with the company still stumbling. Dunlap's antics now became even more frenetic. He shelled out $2.5 billion to buy up three small companies and then announced more job cuts "to absorb the newcomers."[40] Employees grimaced, not Dunlap. Early in 1998, Sunbeam had doubled his salary — and added in new stock considerations worth $70 million.[41]

Dunlap would do little to "deserve" these new millions. In the spring, Sunbeam reported huge first-quarter 1998 losses.[42] Dunlap, Wall Street began to fret, might be "failing in his turnaround mission."[43] In early June, Sunbeam shares would be down 65 percent.[44] Dunlap, by that point, had begun flailing about furiously for loans — or a buyer willing to take the Sunbeam turkey off his hands. Nothing worked. Finally, on June 15, a dispirited Sunbeam board gave Dunlap the heave-ho. He had, board members agreed, "terrorized underlings, refused to listen to suggestions, overrated his own intelligence, and adopted arbitrary rules."[45] More charges would start emerging in the months ahead, and, in 2001, the Securities and Exchange Commission would file suit against Dunlap and four of his management buddies. Nearly a third of Sunbeam's 1997 operating earnings, the SEC charged, "came from accounting fraud."[46] In January 2002, Dunlap would agree, without admitting guilt, to lay out $15 million to settle a Sunbeam shareholder suit. Sunbeam, by that time, had gone into bankruptcy.[47]

Sunbeam effectively ended Albert Dunlap's executive career. But what a career it had been. For close to thirty years a bully had swaggered his way across the business landscape, wreaking havoc in the lives of tens of thousands of employee families, accepting the accolades of corporate and political leaders, all the while puffing up companies with smoke and mirrors and piling up an enormous personal fortune.

Albert J. Dunlap no longer graces the covers of business magazines. He has become a corporate nonperson, rarely mentioned and, if mentioned, quickly dismissed as an unfortunate aberration. But Dunlap is no aberration. His career typifies corporate America's boundless faith that inordinate business success lies just one "rare talent" CEO away. Dunlap was one such rare, "deserving" talent.

Jerry Levin is another.

In 1997, the struggling Coleman camping equipment company named Jerry Levin the firm's new CEO. Levin quickly pledged to turn the company into a winner.

"I am 100 percent confident that Coleman will be a very successful growth vehicle," he announced. "This company is not for sale."[48]

The next year, Levin sold the company — to Al Dunlap and Sunbeam. The sale, Levin noted, would "clearly" benefit Coleman shareholders by creating both "immediate value and longer-term growth potential." But most of that benefit seemed to go only to Levin. He cleared $10 million in option profits shortly after the sale announcement. Coleman shareholders, after Sunbeam tanked, would end up empty-handed.

Sunbeam's very own rare talent, Albert J. Dunlap, had failed to measure up. Now, to replace the disgraced Dunlap, the directors on Sunbeam's board would have to find a new rare talent. They found him. In June 1998, shortly after firing Dunlap, Sunbeam's struggling board proudly announced the hiring of a new CEO, a true rare talent.

Jerry Levin.

RARE TALENTS TAKE GREAT RISKS. Rare talents work tirelessly at onerous tasks. Rare talents make incredibly wise and weighty decisions. Rare talents deserve rich rewards. Corporate America is sticking to this story, the Al Dunlap disasters notwithstanding. Dunlap's sorry saga, we are told, merely signifies that corporate America can occasionally be snookered.

Did Dunlap snooker corporate America? He certainly did — but that wasn't particularly difficult to do. The corporate boards that hired Al Dunlap apparently didn't even bother to check his résumé.[49] But whether scam artists like Dunlap can snooker corporate America matters, in the end, far less than another, considerably more fundamental, question: Is corporate America snookering us? Does *anyone* who sits in an executive suite deserve to walk away with tens — or even hundreds — of millions of dollars?

Just how deserving, in other words, are the executives and entrepreneurs who have accumulated America's greatest fortunes?

These executives and entrepreneurs are eminently deserving, business folklore assures us, because great fortunes begin with great risks. Nothing ventured, nothing gained. Those who do venture merit gain. After all, upon venturing out, they may encounter great pain. Don't they deserve, given that danger, whatever gain comes their way? A potent argument. But what if that prospect of pain should disappear? Would the venturesome then deserve any great gain that comes their way? Surely not, for how can risk justify reward if the "risk" carries no downside?

Defenders of America's greatest fortunes insist, of course, that dangerously real downsides lurk around every corporate corner. Executive life, they tell us, comes with no guarantees. Top executives can be fired. Or their stock holdings can suddenly lose value. So goes the mythology. In real corporate life, hardly anyone fortunate enough to sit behind a top executive's desk ever loses — not with golden parachutes in one desk drawer, repricings, reloadings, and restricted stock over in another. Corporate America has created, as we have seen, what amounts to a risk-free womb for "truly rare talents."

"Welcome aboard the Chief Executive Gravy Train," the *Wall Street Journal* proclaimed in 1998. "It overflows with treasure when things go well — and even when they don't."[50]

In 2000, things most definitely did not go well for Office Depot. Net income for this Florida-based chain dropped an incredible 81 percent. Bad news for the company's top executive, David Fuente? Yes, in a way. He lost his job. The Office Depot board canned him halfway through the year. But Fuente left, after thirteen years as CEO, with $8.6 million in severance, on top of $1.4 million worth of regular compensation for a half year's worth of work.[51] In "losing," Fuente pocketed more income in one year than most Americans could earn in two hundred and fifty.

"There is no longer," notes Carol Bowie, one top national executive pay expert, "any risk financially to being a CEO."[52]

America's top executives have achieved, in effect, the risk-free nirvana business titans have been seeking ever since the modern corporate order first emerged in the decades after the Civil War. In boardrooms back then, as in boardrooms today, astute captains of industry have always understood that grand fortunes come most expeditiously to those who eliminate risks, not those who take them. A century ago, corporate giants rigged "trusts" to crush any rivals that might place their enterprises at true competitive risk. Today's corporate giants endeavor to squash rivals with much the same zeal. Microsoft, a federal judge would rule in 1999, illegally and repeatedly manipulated "its prodigious market power and immense profits to harm any firm that insists on pursuing initiatives that could intensify competition against one of Microsoft's core products."[53]

America's business leaders simply despise risk. They will do most anything to avoid it. They will collude. They will connive. They will conspire. And if they get caught rigging the marketplace? No great risk in that. The antitrust laws enacted generations ago — to prevent corporations from eliminating competitive risk — can almost always be sandbagged by clever lawyers. Corporate America's sharpest business operators, in other words, can eliminate marketplace risks without taking any.

The exceptions only prove the rule. In the 1980s, Michael Milken amassed hundreds of millions — $550 million in 1986 alone — by diligently conniving to drive risk out of the bond market.[54] Government investigators did eventually catch up with Milken and filed, in 1989, over one hundred felony charges against him. The junk bond king wound up pleading guilty, serving nearly two years in jail, and paying $1.1 billion in fines and penalties. An object-lesson powerful enough to scare other executive lawbreakers straight? Probably not. Milken left prison, in many eyes, a business folk hero. By century's end, his net worth still hovered close to $1 billion.[55]

Average Americans, unlike top executives, cannot so easily eliminate risk from their daily working lives. Millions of Americans, in fact, regularly face serious risks in their workplaces. We sometimes, as a society, recognize the dangers these Americans face. But we never, as a society, claim these risk-takers deserve to be rich.

America's average workaday risk-takers don't wear power suits. They are firefighters who rush into burning buildings and ironworkers who walk on I-beams forty floors up. They're nurses on midnight shifts and clerks in robbery-prone convenience stores. They're men and women who encounter real hazards, some because they welcome risk, most because they have no choice. Corporate America seldom rewards these everyday risk-takers particularly well. Corporate America seldom even feels compelled to reduce the risks that put these risk-takers at peril. Risk-free wombs remain for executives only.

Mere working folk get "clean rooms."

Workers in "clean rooms," the workplaces where computer chips are made, wear head-to-toe protective clothing. They labor in air their employers have carefully made dust-free, since a single dust particle can compromise the entire chip-making process. But chemical fumes are another matter. Fumes don't endanger the chip-making process, and clean room air filters, consequently, aren't configured to trap any chemical fumes that may be floating about.

In 1998, after various cancers started claiming "clean room" worker lives, concerned California health department officials tried to find out just how much risk chip-making workers were actually facing. But the health officials didn't get very far, mainly, critics charged, "because semiconductor manufacturers refused to cooperate."[56] Three years later, in 2001, British health authorities had more success. They were able to complete a comprehensive clean room risk assessment and found, among workers at a Scottish semiconductor plant, "elevated levels of breast, lung, brain, and stomach cancer."

"Clean room" workers in the United States, the British study's results made plain, were taking risks every day, for paychecks that averaged, at century's end, about $25,000 a year.[57] Top computer industry executives like IBM's Lou Gerstner — $102 million in total 1999 compensation — could make more than that in a couple hours.[58]

Who deserves, in the final reckoning, more compensation for taking risks, a Lou Gerstner or an IBM clean room employee, perhaps a worker like Armida Mesa, a nonsmoker who was diagnosed with cancer sixteen years after she started working for Big Blue?[59]

To meaningfully consider such a question, notes British philosopher Alex Callinicos, a serious analysis "would have to come up with a way of comparing the moral worth of, say, the risks that rich people face when they play the stock market with that of the hazards confronting workers compelled to undertake dangerous tasks in a polluted workplace because of the absence of alternative employment in their area."[60]

Corporate America has not yet undertaken this sort of comparative analysis. Any such study would, undoubtedly, be too risky.

HARD WORK PAYS. Just ask any business card-carrying member of America's corporate elite, someone like New York bank CEO John K. Castle. In the 1990s, Castle built up a personal fortune worth $100 million. He deserved every dollar. Hard work, he told one journalist at decade's end, made him worthy.

"None of this happens without working 60 hours a week," Castle noted proudly. "But I work 60 hours a week because I want to, not because I've got a time clock."[61]

Castle may want to rethink his aversion to time clocks. He seems to have trouble keeping track of how many hours he actually works. That became apparent, in 1999, after a *Wall Street Journal* reporter followed the New York executive around for a day in the middle of a winter work week. That day opened, in Florida, with Castle showing off his $11 million Palm Beach estate. Later, the *Journal* watched Castle wile away the afternoon hours jumping hurdles "astride one of his show horses at his nearby 10-acre farm." The day ended on the water, with Castle nibbling cheese and crackers aboard his yacht. This busy day, the *Journal* reported, was by no means out of character for Castle. During the winter months, he spent a few days on and around his Florida estate every week.

CEO Castle, the *Journal* added, had also found time in his hectic business schedule to organize a private expedition to the North Pole, climb his way up and down mountains in Africa and the Himalayas, and send his yacht on a two-year voyage around the world. Castle, the hard-working executive that he is, naturally didn't have the time to personally skipper his yacht the entire way. Instead, about a dozen different times, he would fly overseas to meet up with the yacht at some exotic port of call, then captain the vessel for a week or so of sailing until duty called him back to New York. Castle logged almost 150,000 air miles in the process. All time well spent. Chief executives, Castle told the *Journal*, "need some time to step back and get the broader perspective."

How many wealthy people labor at schedules as grueling as John K. Castle's? A healthy number, apparently. One 1998 study of Americans who make at least $1 million a year found that more than 20 percent take two months or more of annual vacation.[62]

More specific numbers, unfortunately, are somewhat hard to come by. Executives, after all, punch no time clocks. And if they did, would they punch out *before* joining a potential investor for dinner? Would they log as work time the hours they spend on golf links mixing putts and patter with potential takeover targets? Would they count as office hours the morning commutes they spend chatting on cell phones in chauffeured limousines? Profound questions. We seem destined to never know exactly how many hours top executives keep their noses to the grindstone.

But even if we could calculate such a figure, and if that figure were sixty or eighty or one hundred hours a week, would high-ranking executives then *deserve* millions of dollars a year for their labors? That case would be hard to make. Average Americans who moonlight at second or even third jobs routinely work sixty to eighty hours a week, without receiving anything remotely close to the robust rewards executives receive. If these average Americans don't deserve king-sized rewards for their long hours, then why should "hard-working" executives deserve regal rewards for theirs?

Our society obviously places no particular premium value on sheer hard work alone. Nor should it.

"It is not enough to tell me that you worked hard to get your gold," as Henry David Thoreau once noted. "So does the devil work hard."[63]

IF THE DEVIL WERE TO GO STRAIGHT, and put his talents toward legitimate pursuits, would he deserve a fortune in return?

That, a human resources specialist might respond, depends. The specialist would likely want to subject the devil's new responsibilities to some close analysis. How much decision-making authority does the devil enjoy in his new position? How complex are the decisions the devil will be called upon to make? How many people will be impacted by those decisions? In short, how difficult, how weighty will the devil's new work be?

By any reasonable measure, the chief executives of major business corporations do difficult, weighty work. They manage enterprises that may employ thousands of people. They make decisions that involve billions of dollars. They interact with important people from all walks of life. For performing these complex responsibilities, most reasonable people would agree, top executives certainly deserve to be well rewarded.

So, perhaps, do school superintendents.

The superintendents of big-city school districts also manage enterprises that employ thousands of people. Superintendents also make decisions that involve billions of dollars. They also interact with important people from all walks of life. Superintendents, in addition, must also do their work with press, parents, and politicians intently scrutinizing their every move. And all these onlookers demand results. Schools must be safe, test scores must rise, and all children must be educated.

A tall order. In 1997, for agreeing to take on this challenge, New York City's top school executive took home $245,000. He managed a system that boasted seventy-five thousand employees, over 1 million students, and an $8.1 billion budget. In that same year, corporate chief executives who led businesses in the same budget range managed, on average, fourteen thousand employees — and took home $25 million, more than one hundred times the salary of New York City's top school official.[64]

Who had the more complex and demanding job, the New York City school chief or the corporate chief executives? Who deserved more reward?

A fair comparison? Maybe not. Big-time business executives operate on the world stage, school superintendents are strictly local players. Business executives hobnob with United States senators, superintendents with city councils. Top corporate executives make decisions that shape the fates of nations. Superintendents shape junior high curricula. Superintendents, a corporate human resources office might argue, cannot possibly deserve to earn as much as top business executives. The "scope" of the work they do is simply not broad enough.

Should "scope," then, be our yardstick for determining who deserves the greatest rewards? Should the greatest rewards go to those who work on the grandest stage? That certainly seems reasonable. But if scope makes for a sensible standard, why do today's corporate executives make more, colossally more, than a President of the United States?

In 1995, that question popped up to Raymond and Carla Baechle, a Florida couple who happened to own some shares of BellSouth stock — and also happened to share some discomfort about the lofty rewards then bestowed upon BellSouth's most prominent executives. Why should these executives, the Baechles wondered, make a lot more money than the President of the United States when the President, as they put it, had "a much more demanding job" than any BellSouth corporate officer? The Baechles, unable to think of any valid reason for that pay discrepancy, advanced a shareholder resolution that asked BellSouth to limit executive compensation to just $400,000 a year, twice the $200,000 then paid to Presidents of the United States.[65]

The company was not amused. Limiting executive salaries to $400,000, BellSouth officials informed the Baechles, "would have an adverse impact" on leadership, operations, and "shareholder value."

The Baechle proposal, not surprisingly, sank without a trace. BellSouth, meanwhile, went on to boost CEO John L. Clendenin's annual compensation for 1995 to $4.8 million — twenty-four times then President Bill Clinton's White House salary — and tossed in, as an extra treat, an option grant valued at $2.3 million. All this generous compensating took place while BellSouth was announcing the latest of over twenty-one thousand job cuts.[66]

Did John L. Clendenin deserve to earn more in one year than the President of the United States would have had to serve nine four-year terms to equal?

Defenders of chief executives naturally object to any comparisons along these lines. A reasonable society, they believe, ought not compare apples to oranges, or CEOs to distinguished figures from other fields. Presidents and corporate chief executives operate in distinctly unique contexts. They face different challenges, different institutional cultures, different dangers. Why should we expect them to receive the same rewards?

A reasonable enough position, except for one inconvenient historic reality. Years ago, Presidents and CEOs *did* receive the same rewards. In fact, for a good bit of the twentieth century, the typical big-time corporate CEO took home less than the President of the United States, not more.

In the 1930s, the newly created federal Securities and Exchange Commission coordinated the nation's first systematic survey of CEO compensation. The typical chief executive of a publicly traded firm in the United States, that research revealed, earned $60,000 in 1934.[67] In that same year, the President of the United States, Franklin D. Roosevelt, earned $75,000.[68]

A generation later, Presidents were still earning more than corporate chief executives. In 1970, the typical American CEO walked off with $154,427.[69] Richard M. Nixon that year earned $200,000.[70]

Over the next decade, the tables did turn somewhat. In 1980, Jimmy Carter made the same $200,000 Richard Nixon made in 1970. But corporate CEOs had in the meantime seen their compensation increase. The typical 1980 CEO took home $313,028, half again more than the President.[71] Still, given the free room and board at the White House, Presidents were doing just about as well as corporate chief executives.

The big picture? For at least half a century, from the 1930s through the 1970s, America's most distinguished political leader, the President of the United States, and America's most distinguished business leaders, corporate CEOs, earned comparable incomes.

Over these years, corporate CEO pay remained remarkably stable, at least after taking inflation into account. In 1934, CEOs took home $60,000, a sum equal to about $790,000 in 2001 dollars.[72] In 1970, the typical American chief executive earned $154,427. That compensation, in 2001 dollars, would have equaled $717,365.[73] A decade later, in 1980, the typical CEO took home $313,028, a sum that would have amounted, in 2001 dollars, to $733,037.[74] Again, no appreciable change from the 1930s.

The bottom line: Over the course of the 1930s, 1940s, 1950s, 1960s, and 1970s, American business, in its infinite wisdom, did not see fit to raise the real compensation of the nation's top executives. For nearly fifty years, America's most typical CEOs took home, in earnings adjusted to 2001 purchasing power, about $750,000 a year.

After 1980, this executive pay stability would shatter. Over the next twenty years, CEO real incomes would double once, double twice, double a third time, and then nearly double again. In 2001, typical CEOs were earning $10.2 million — fourteen times more than the $750,000 CEOs averaged for the half-century before 1980.[75] By century's end, top American business leaders were routinely making more in a week than the President of the United States could earn in a year.

Do America's modern CEOs deserve this incredible good fortune? Are they performing at levels that put their executive predecessors to shame? Do they face stiffer challenges? Are they working more efficiently? Are they making weightier decisions? Do they deserve more credit for enterprise success than executives deserved in days gone by?

These are not easy questions.

In other fields of endeavor, we can make credible performance comparisons across generations. We can confidently contend, for instance, that basketball players today perform more effectively than their Depression-era counterparts. Today's hoopsters stand taller, jump higher, and shoot better. With CEOs, we can make no such clear, incontrovertible judgments. Do CEOs today operate in a more demanding environment than CEOs a generation ago? Perhaps. Is that environment twice as demanding as the business landscape thirty years ago? Ten times more demanding? Who knows? No one can say for sure whether executives today face challenges substantially more daunting than executives yesterday.

Some observers try anyway. And they make, at first glance, a good case. The economy has changed, these defenders of modern executive pay argue. Yesterday's Industrial Age has become today's Information Age. Executives no longer dictate letters at leisurely paces. They juggle e-mails and cell phones and make complex judgments at split-second intervals. Plop a 1930s executive in a twenty-first century executive suite and that executive would sink faster than an original Celtic in a modern-day NBA arena. Today's executives, corporate cheerleaders insist, do fundamentally more demanding and difficult work than yesterday's. They should, as a result, reap greater rewards.

Let us test this case. If CEOs do indeed deserve their current good fortune because the Information Age has transformed the work they do, then all corporate executives who operate — and succeed — in the difficult, demanding Information Age ought to be reaping grand rewards. But, in fact, not all Information Age CEOs are reaping grand rewards. Successful CEOs today who operate outside the United States — in Germany, Japan, France, Britain, and every other developed nation in the world — all make appreciably smaller rewards than American CEOs.

These successful foreign executives operate in the same globalized economy as American executives. They face the same Information Age obstacles and opportunities. But they are not compensated at the same lofty level. Top corporate executives in the United States make more, massively more, than executives anywhere else in the world.

The world saw vividly just how much massively more when Chrysler, the classic U.S. automaker, merged into Daimler-Benz, the equally classic German company in 1998. Daimler-Benz, at the time the merger was announced, outpaced Chrysler by every standard corporate measure. Daimler-Benz raked in considerably more revenue than Chrysler. Daimler-Benz also generated considerably higher profits. But executives at Chrysler, remarkably, took home considerably bigger paychecks than their German counterparts.[76] In 1997, Daimler Chairman Juergen Schrempp earned an estimated $2.5 million. Chrysler Chairman Robert Eaton that same year made over six times more, $16 million. Chrysler's top *five* executives, together, collected $50 million in compensation in 1997. Daimler's top *ten* executives pulled in only $11 million.[77]

Elsewhere in the world, the same basic story. Foreign CEOs simply don't play in the same compensation sandbox as their American rivals. In 2000, the average pay for all the CEOs of companies listed on the New York Stock Exchange more than tripled the average pay of the top executives of all the companies listed on the Tokyo Stock Exchange. The Japanese executives averaged between $300,000 and $500,000. The U.S. average: $1.5 million.[78] In

2000, the highest-paid chief executive in British banking, the Royal Bank of Scotland's Fred Goodwin, pulled in $3 million. His American counterpart, Citigroup CEO Sandy Weill, took in $127 million, forty-two times more.[79]

These huge gaps between American executives and their competitors overseas are beginning to narrow somewhat. Many top European and Asian executives, who see themselves as every bit as worthy as their American counterparts, are demanding U.S.-style remuneration. They feel they deserve more. Maybe American CEOs deserve less.

SOME AMERICAN CEOs, business commentators in the United States agree, do definitely deserve less compensation than they are currently collecting. Executives who fumble away shareholder value, most commentators believe, ought to be getting warnings, not windfalls. By contrast, these analysts are quick to add, those executives who successfully enhance shareholder value deserve our deepest thanks. They have created wealth. They deserve wealth in return.

But how much wealth? Corporate America has not, by and large, given this question much quality time.

"If shareholders gain a billion in market value, what percentage should go to management?" wonders one pay consultant, Eric Scoones, a principal at William M. Mercer Inc. "I don't think many people have sat down and asked that question."[80]

Corporate leaders, instead, simply assume that the road to business success starts and ends at the top. CEOs, America's standard boardroom wisdom holds, deserve substantial, indeed almost total, credit for corporate achievement. CEOs frame the vision. They inspire the troops. They ride to the rescue, white knights in blue power suits. They need no help. They seek no help.

At America's finest business schools, tomorrow's top executives are taught to marvel at the individual magnificence of CEOs past and present.

"A business school case in strategy," notes the British economist John Kay, "characteristically features a named CEO struggling, frequently alone, to resolve the fundamental issues of his company's strategic direction."[81]

Those CEOs who succeed in this epic struggle, corporate America takes as a given, deserve whatever rewards they may gain. "Successful" executives, in effect, have a right to outsized fortunes. Remarkably, even critics of executive pay excess often buy into this heroic worldview. In 1996, for instance, reporters rushed to Graef Crystal, America's most-quoted executive pay critic, after reports surfaced that Andy Grove, the top executive at Intel, the world's largest computer chipmaker, had just cashed out $94.6 million worth of stock options. Reporters expected Crystal to be outraged. He wasn't.

"I told the reporters," Crystal would note later, "that Grove was one of my compensation heroes and that, if anything, he was being paid far too little for his magnificent contributions to the shareholders of Intel of which, I am happy to say — nay, ecstatic to say — I am one."[82]

A shareholder who spent $100 on Intel stock in 1987, Crystal explained, would have seen that $100 grow, in just a decade, to over $1,800, a 34 percent annual compounded return. By contrast, the S&P 500 Index, over those same ten years, returned a mere 14 percent per year.[83] Any executive who creates such immense value for shareholders, analysts like Crystal believe, can hardly ever be overpaid.

The enormously wide gaps that mega-million-dollar rewards open between executives and everybody else do at times give these analysts pause. "How can a society continue to operate," Crystal once mused, "if this gulf gets wider and wider, year in and year out?"[84] But if an executive really does perform for shareholders, he adds, companies have no choice but pay up and cheer. We need, Crystal proclaimed after Grove's $94.6 million payday, "to celebrate his triumph and pray that those turkey CEOs running the other companies in my investment portfolio call up Grove and ask him how he did it."[85]

And how did Grove do it? Not alone, as Grove himself has freely acknowledged. In 1998, at his retirement as Intel CEO, Grove had nothing but the highest possible praise for his successor Craig Barrett, the company's chief operating officer since 1993. Barrett, Grove noted, deserved all the credit for Intel's chip-making prowess.

"Craig has been the architect of Intel's operations throughout the last decade," summed up a magnanimous Grove. "Craig keeps the Intel machine running."[86]

That observation, if accurate, does raise some questions. If Craig Barrett deserves such significant credit, then his boss, CEO Andy Grove, was clearly not single-handedly responsible for Intel's success. And if Andy Grove was not single-handedly responsible for Intel's success, isn't it also possible that Craig Barrett was not single-handedly responsible for the kudos that Grove so generously showered upon him? Isn't it possible that behind Craig Barrett stood legions of hard-working, unheralded assistants? And if those unheralded assistants did indeed deserve significant credit for Intel's success, why did the rewards for that success go so disproportionately to Andy Grove?

SO WHO REALLY DOES DESERVE CREDIT for corporate success? Outside the United States, in even the most Americanized of foreign lands, business leaders and commentators give a straightforward answer. They define corporate success as a collective endeavor.

"Profits are brought in by everyone in the firm," a *Times* of London analysis noted soberly in 2001, "not just the chief executive."[87]

Businesses in most of the industrialized world tend to share, much more than in the United States, both credit and rewards. The pay gaps between top executives and average employees, outside the United States, have remained relatively modest. In Japan, near century's end, chief executives at big Japanese companies averaged about $350,000, not quite seven times the $56,000 the average Japanese white-collar "salaryman" took home.[88] A 1997 survey estimated a sixteen-to-one pay gap between Japanese CEOs and average Japanese blue-collar workers.[89]

The differentials between executives and workers run higher in Europe than Japan, but only slightly so. Most Germans, a *Wall Street Journal* report noted in 1998, fear that excessive executive pay — and wider income gaps — would "endanger social peace."[90]

"It's the European mentality," one shareholder activist told the *Journal*. "The enrichment of an individual on the backs of the workers is considered exploitation."

Even, sometimes, among executives themselves.

"Many European executives still pride themselves on their egalitarian sensibilities and lack of ostentation," a *Forbes* reporter concluded in 1999. "The farther north, the more this attitude prevails."[91]

That same attitude once prevailed, to a point, in the United States. Back in the middle of the twentieth century, pay gaps between American executives and American workers approximated pay gaps elsewhere in the industrial world. In 1965, American CEOs took home forty-four times more than average factory workers, according to *Business Week*'s Annual Executive Pay Survey.[92] That gap about doubled the differential between German workers and German executives, but American workers made more, in real purchasing power, than their German counterparts.

The story started changing in the 1980s. By 1997, *Business Week* put the gap between American CEOs and average workers at 326 to 1. That divide soared to 475 to 1 in 1999 and then, in 2001, to an even more remarkable 531 to 1.[93] The German pay gap ratio, by contrast, expanded only marginally. By 2001, to add insult to injury, average German workers were making more, in real purchasing power, than their American counterparts.

By century's end, America's top executive pay packages were routinely outpacing minimum-wage paychecks by multiples of a thousand times and more. But these executives weren't just speeding past unskilled workers. They were zooming past rigorously educated professionals as well. Early in the 1980s, chief executives averaged twenty-three times the average engineering paycheck.[94] In 2000, top executives in the United States scored over one hundred and fifty times the pay of their engineers.[95]

By the late 1990s, even many of those who benefited from such gaps were starting to gag. In a 1997 *Business Week* poll, nearly half the four hundred senior executives surveyed said they felt CEO pay at America's biggest companies had gone beyond "acceptable limits."[96] Other business leaders, like Gregory Pierce, a Chicago publishing executive, expressed a deeper outrage.

"From a spiritual point of view," Pierce preached, "it cannot be true that the work of the CEOs of some companies is worth a thousand times that of some other of their employees, just as it cannot be true that because you can get people to work full time for minimum wage they are justly compensated."[97]

HOW CAN EXECUTIVES MORALLY MERIT a hundred or a thousand times more compensation than average working stiffs? How can executives, with a clear conscience, lay claim to such a disproportionate share of the nation's economic wealth? What can possibly justify such a cascade of corporate treasure into CEO pockets?

Genius can justify that cascade. The nation's most richly rewarded executives aren't just smarter than everyone else, apologists for over-the-top corporate compensation assert, they are masterminds. These men of genius don't take wealth someone else should have. They create wealth that otherwise would not exist. The rest of us may not always be able to fully fathom the moves these masterminds make. We should not be discouraged. After all, we aren't the masterminds. They are.

"Up to the point of bankruptcy or incarceration we regard the rich man and his work as complex beyond our understanding," notes author Michael Lewis, a Wall Street-trained chronicler of the ways and wiles of the wealthy. "All highly public business decisions made by rich men are, at the time of the decision, not evaluated on their own terms but widely applauded as strokes of genius."[98]

The grander the decision maker's fortune, the more enthusiastic the applause. And no one would gain more curtain calls — or rewards — in the boom years than Michael Eisner, the superstar CEO of Walt Disney, the world's mightiest entertainment empire.

Back in 1984, the year Eisner took on Disney's top executive slot, that empire looked anything but mighty. Uncle Walt, the founding genius, had packed it in. Mickey and Goofy were getting on. Shareholders were grumpy. But Eisner would restore the Magic Kingdom. Hit movies, under Eisner, would once again start tumbling out of Disney's studios. The movies would spin off Broadway shows and theme park attractions. The attractions would make Disney World "the most popular vacation destination" in the United States.[99] On Wall Street, Disney's market capitalization, the total value of the company's shares, would leap more than tenfold, in less than a decade.

Michael Eisner reaped the credit — and a lion king's share of the rewards. In 1992, Eisner cashed out over $200 million in option gains.[100] The immensity of that windfall amazed America, even the Disney insiders who had negotiated Eisner's pay package.

"None of us in our wildest dreams ever imagined we'd be looking at a $200 million payday," Raymond Watson, the chair of the Disney board of directors compensation committee, would note. "But then again, we never thought we'd be talking about a market cap of $22 billion, either."[101]

That market cap just kept climbing. Through Eisner's first thirteen years as CEO, Disney shares averaged 27 percent annual gains.[102] In early 1997, a grateful Disney board bestowed upon the magical Eisner a new, even more generous compensation agreement.[103] Eisner celebrated his good fortune, on December 3, 1997, by cashing out a pile of the stock options he had collected under his old contract. The day's transactions left him, as we saw earlier, with a $565 million personal profit, the biggest single payday, up until then, in American business history.[104]

That payday certified Eisner's genius. Every move he made now only added to his glory. Disney's Major League Baseball team, the Anaheim Angels, guaranteed the bulky Boston first baseman, Mo Vaughn, $80 million for six years. Reporters labeled the deal, on Eisner's part, "a stroke of genius."[105]

But what exactly was Eisner a genius at?

Certainly not what would, by most people, be considered "management." No one, not even the most eager-to-please Disney flack, would ever label Eisner a managerial genius. The nuts-and-bolts of running a modern, complex enterprise — identifying good people, nurturing their talents, keeping them happy and productive — didn't interest Eisner in the least. Business magazines duly noted his "arrogance" and "inability to keep key people."[106] Hollywood gossip columnists regaled readers with the juicy inside stories behind his classic feuds with former friends and colleagues, feuds that cost the Disney empire tens of millions of dollars. In 1995, for instance, Eisner brought in, as Disney president, Hollywood superagent Michael Ovitz, his "best friend for 25 years." The move surprised just about everyone in entertainment, including Ovitz.

"I was floating around looking for something to do," Ovitz later related. "To this day I don't know why he brought me in here."[107]

Eisner, apparently, didn't know either. Fourteen months after hiring Ovitz, Eisner sacked him. Ovitz walked off with a severance package estimated at $94.5 million.[108]

Some executives with "people problems" stake their claims to genius on visionary brilliance. Eisner could make no such claims. He badly bungled the Internet. His flagship cyberspace initiative, Go.com, an effort to give computer users a jumping off point, or "portal," into the Web, proved a miserable flop that cost Disney over $100 million.[109] Eisner the would-be visionary blew tens of millions more on merchandising, with a mad rush to plant Mickey in every mall. He spent a fortune blanketing — and ultimately boring — America with Disney retail stores. Disney, analysts would later scold, had "opened too many stores" and stuck too long with tired old merchandising characters.[110]

"They didn't rejuvenate characters or go out and develop new characters, and most importantly they didn't get Harry Potter," one industry insider explained to the Disney empire's hometown newspaper, the *Orlando Sentinel.*

That last failure stung. How could Eisner have fallen so out of touch with changing public tastes? The ability to connect, to recognize popular culture that could capture the public's imagination, was supposed to be Eisner's very special genius.[111] Eisner's "instincts," at the start of his career, had brought America such soap opera smashes as *All My Children* and *One Life to Live.*[112] Now, with a new century beginning, Eisner's instincts seemed to be failing him. Disney once had a lock on animated hits. Now those hits were coming from other studios. Worse yet, the biggest animated blockbuster of the new century, *Shrek*, openly lampooned Disney's most-beloved cartoon creations. Disney's network TV operation, meanwhile, was stumbling, too. Eisner had acquired ABC to give Disney's studios a network to showcase their product. A hit product, a comedy like *The Simpsons*, could spin out years and years of rerun profits. Disney needed one of those hit comedies. But Eisner couldn't deliver. "Disney hasn't developed a hit sitcom," *Fortune* pointed out in 2002, "since *Home Improvement* in 1991."

ABC, under Eisner, would register one megahit, the game show *Who Wants to Be a Millionaire*. But the network proceeded to ride that hit to viewer exhaustion, running episodes as many as four times a week.[113] By late 2001, *Who Wants to Be a Millionaire* was drawing yawns and ABC had dropped down to last in the prime-time ratings. ABC's operations in 2002, one analyst predicted, would cost Disney $400 million.[114]

What had happened to the legendary Eisner genius? Even the Mo Vaughn baseball deal soured. In 2002, after three disappointing years, a bitter Vaughn exited the Angels.

Can genius suddenly disappear? Or did Eisner, perish the thought, not have genius to lose? Maybe Eisner, business analysts started suggesting, hadn't been single-handedly responsible for Disney's grand successes of the 1980s and early 1990s. After all, he did have "a strong wind at his back during his glory days at Disney."[115] In the 1980s, that wind blew VCRs into tens of millions of American homes, creating a huge new market for home videos. Disney, with a half-century of children's classics in its vaults, was able to profitably feed this new market. Eisner played no part whatsoever in the VCR explosion. He contributed nary a creative thought to *Bambi*, *Sleeping Beauty*, or any of the other classics that would pump up Disney's revenue streams.[116]

Could Michael Eisner legitimately claim genius status at anything? Most certainly. At reaping rewards, he remains unparalleled. Eisner, noted *Forbes* midway through 2003, had annually "averaged $122 million in pay since 1997." Disney shareholders, in those same years, had averaged a minus 5 percent annual return.[117] Despite that woeful performance, *Forbes* marveled, Eisner actually received a $5 million bonus in 2002.

That must be genius.

MICHAEL EISNER DIDN'T HAVE THE "VISION" to see the Internet coming. Other executives — the pioneers of Internet commerce — did. Were they geniuses? At century's end, a good bit of America thought so. *Time* magazine even gave one of these pioneers American journalism's ultimate individual tribute. *Time* named Jeff Bezos, the executive behind Amazon, the Internet's most illustrious retailer, its 1999 "Person of the Year."[118]

"Every time a seismic shift takes place in our economy," the magazine explained, "there are people who feel the vibrations long before the rest of us do."[119]

Bezos apparently felt those vibrations.

In 1994, Bezos had been just another ambitious young financial manager in New York when he happened to stumble upon a fascinating fact. Traffic on America's new "information superhighway," the Internet, was rising by over 2,000 percent a month. Suitably impressed, the young Bezos set out for Seattle to start an Internet bookstore. In less than three years, his Amazon had become the Web's hottest shopping destination. By December 1999, Bezos had built a fortune worth $13.3 billion.[120]

"A rich reward, to be sure," acknowledged *Time*, "but how on earth can you compensate a man who can see the future?"[121]

America's investors were every bit as impressed as *Time*. By December 2000, they had valued Amazon at $36 billion. At the time, the company still hadn't turned a dime of profit.[122] No cause for concern, commentators declared. The Internet had changed the rules. Profits no longer really mattered. Losses merely signaled "the New Economics of Internet commerce."[123] Bezos played by these new rules. In fact, he wrote them.

"Amazon's plan, imitated by hundreds of other Internet companies, was to grow first and to figure out how to profit later," as one observer noted.[124]

The profits would come, Bezos insisted, by the end of 2000.[125] They didn't. In 2000, Amazon sold $2.8 billion worth of merchandise — and lost $1.4 billion in the process.[126] But then, in early 2002, a sudden about face. America's business press trumpeted the good news. Amazon, the headlines shouted, had finally made a profit! Genius redeemed? Not exactly. Amazon, a closer look revealed, had gone into the black by the barest of margins, eking out just a $5 million profit on sales of $1.2 billion.[127] And that profit only reflected the company's fourth quarter business operations. For all of 2001, Amazon once again lost big, going $567 million deeper into the red.[128]

Still, a profit was a profit.

"It's a major turning point for us," Bezos boasted.[129]

What triggered the turnaround? A special free shipping offer, analysts noted, helped some. So did shifts in foreign currency values. Amazon gained an unexpected $16 million from currency exchanges alone in the fourth quarter of 2001, more than three times the quarter's eventual — and much-ballyhooed — $5 million bottom-line profit.[130]

Other analysts credited Amazon's sudden profitability to an aggressive new company commitment to reducing expenses. Amazon was now cutting costs at every opportunity. Among the company's most significant cost-cutting moves: a massive layoff of thirteen hundred employees, 15 percent of the company's total workforce.[131]

These pink slips shut down Amazon's original customer service center in Seattle, where workers hadn't been particularly happy with Amazon even before the layoff notices. In fact, workers at the Seattle center, frustrated by low wages and mandatory overtime, had been trying to organize a union.[132] The company, explained one worker, a single parent named Nancy Becker, expected employees to put in fifty hours a week at crush times, a requirement that was more than just inconvenient for single moms like herself.

"If we are unable to meet that," Becker noted, "our benefits get docked."[133]

True geniuses, of course, aren't supposed to have to squeeze workers to make money, and Bezos, the New Economy genius, now found himself scrambling to sugarcoat his distinctly Old Economy maneuvers. To blunt the shock from Amazon's first mass layoff, Bezos would have his company announce plans to create a special trust fund — with $2.5 million worth of Amazon stock — for the laid-off workers. The trust fund shares, Amazon explained, would be cashed out in 2003 and distributed to the thirteen hundred workers who lost their jobs. The payout would "give these employees a chance to share in the long-term success of the company, even if they were no longer working for it."[134]

That "long-term success," to be sure, could not quite be guaranteed. Amazon, by the end of 2001, had registered seven consecutive years of losses, spilling, along the way, $2.86 billion worth of red ink. At some point, presumably, Amazon might run out of red ink to spill. But that prospect, reporters found, couldn't seem to darken the perpetually sunny Jeff Bezos disposition. Interviewers almost always found him chortling and chuckling, as *Newsweek* put it, "like an overcaffeinated Norwegian tickled to within an inch of his life."[135] If you were Bezos, you might feel tickled, too. On the *Forbes* 2002 list of the world's richest people, the Jeffrey Preston Bezos fortune would be worth $1.5 billion.

THE INTERNET BOOM CAME, THE INTERNET BOOM WENT. But one executive still stood tall, amid the dot.com wreckage. He had come to embody, more than any other single individual, American business brilliance. This executive, swooned his admirers, always brought good things to life — for shareholders. He was Jack Welch, the long-time CEO of the most successful "Old Economy" company in America, General Electric.

Business journalists, by the end of the twentieth century, were acclaiming Welch's wisdom at every imaginable opportunity. Indeed, noted one nationally syndicated columnist, "you can hardly open a business magazine nowadays without seeing a salute to Jack Welch. The man's a bloomin' genius."[136] Not just a genius. The "manager of the century," or so *Fortune* tagged him in 1999. And who could better lay claim to that honor? Under Welch's leadership, G.E., once a predictable appliance maker, had become the world's largest nonbank financial corporation, with annual profits that no company anywhere could match — or even dream about matching.[137]

In the face of such achievement, even crusty CEO critics genuflected.

"Jack Welch of General Electric made $75 million last year and he is a brilliant, brilliant chief executive," CEO gadfly Graef Crystal told reporters in 2000. "You could make the case that if anyone deserves to be paid $75 million, it's him."[138]

Actually, the General Electric board of directors came to believe, a mere $75 million couldn't do Welch justice. The man needed a raise. He got it. In 2000, the G.E. board hiked Welch's base salary by 20 percent, upped his bonus 27 percent, and awarded him almost $50 million worth of free shares of G.E. stock to "recognize his 20 years of outstanding service as chief executive."[139]

What brand of genius could be worth so much? America's biggest book publishers felt America would pay to find out. In 2000, they staged a spirited bidding war for Welch's memoirs. The eventual winner, Time Warner, offered Welch a $7.1 million advance, an unprecedented sum for nonfiction.[140]

Welch's book, published in 2001, went on to become a bestseller. But would-be captains of industry didn't have to read *Jack: Straight from the Gut* to learn the great man's secrets. The "big ideas" behind Welch's phenomenal success had already filtered through America's corporate suites. Welch's most admired contribution to corporate wisdom? His competitiveness dictum. If you're not competitive in a particular market, Welch advised, don't compete. And Welch practiced what he preached. Early in his tenure as G.E. chief executive, he directed his managers to "sell off any division whose product was not among the top three in its U.S. market."[141] They did. G.E. would unload or shut down operations that impacted tens of thousands of workers.

Welch played few favorites. He could be as ruthless with his white-collar help as his blue-collar factory workers. In fact, corporate human resources professionals consider Welch the "brains" behind what may be corporate America's most brutal office personnel practice, the annual firing squad known as "forced rankings."[142] At General Electric, under Welch, this approach to supervision forced managers to rank their professional employees, every year, by category. Each one had to be placed in the top 20 percent, the middle 70, or the bottom 10.[143] The top got accolades. The bottom got fired.

"Not removing that bottom 10 percent," Welch would tell G.E. shareholders, "is not only a management failure but false kindness as well."[144]

Jack Welch's General Electric would have no room for "false kindness." You were either competitively successful, as an employee or a division, or out. You had to deliver.

Except at the top. Jack Welch delivered nothing. He built nothing. He became the twentieth century's most celebrated executive by identifying challenges — and running the other way. A G.E. division struggling to make a market impact? Dump it. An employee who isn't putting up the numbers? Fire away. Jack Welch did not turn marginal General Electric business operations into market leaders. He did not endeavor to transform weak staff into standouts. He, instead, surrounded himself with the already successful — already successful divisions, already successful employees — and rode their successes to his own personal glory.

We need to be fair here. Jack Welch did sometimes try to develop something new. In the late 1990s, for instance, at the height of corporate America's Internet frenzy, Welch decided that G.E. needed to stake out a claim in cyberspace. General Electric, he told *USA Today*, has "got to have more 'dot.coms.'"[145] Welch set out to get those dot.coms. He poured cash into iVillage, Promotions.com, and a host of other cyber sites that promptly, within a matter of months, lost 90 percent of their value. G.E.'s television network, NBC, also tried to launch an Internet portal. "NBCi" proved to be an even feebler entry into the portal sweepstakes than Michael Eisner's Go.com. The NBCi shares, worth $88.50 when they first started trading, ended at $2.19. Business journalists had a field day ridiculing G.E.'s fumbling.

"The NBCi story is a hoot and a half," wrote one, Allan Sloan, in the *Washington Post.* "I can't give you Jack Welch's side of all this, because GE wouldn't return my calls."[146]

JACK WELCH, TRUTH BE TOLD, never once asked people to label him a genius. Nor did he, in his decades at the top, ever credit his personal good fortune to his own earth-shattering mental brilliance. Welch credited his success, instead, to the genius of the free market.

"Is my salary too high?" Welch asked in 1999, his $75 million year. "Somebody else will have to decide that, but this is a competitive marketplace."[147]

Translation: "I deserve every penny. The market says so."

In the world that top executives like Jack Welch inhabit, impartial, unbiased markets — not suspect, unreliable people — determine executive compensation. Markets can't be tricked. Talents in short supply and high demand will always fetch a premium price. That price will be fair, that price will be deserved, because markets don't make mistakes. Smart businesses simply play by market rules. They pay their executives what the market says their top executives deserve.[148] If they don't, they risk losing their executive talent.

Corporate boards tend to worry obsessively about losing "talent." To avoid that horror, Motorola's directors handed their company's CEO, Christopher Galvin, the lushest 1999 pay package in the entire Chicagoland business world, $58.9 million in cash and stock.[149] If Motorola had chosen to be less generous, explained Samuel Scott, the chair of the company's compensation committee, another firm might have stolen Galvin away.

"Motorola," Scott noted, "has been a good company for others to take talent from."[150]

A less obsessed corporate board might not have considered CEO Galvin much of a flight risk. Galvin's granddaddy founded Motorola. His daddy had been the company's CEO.[151]

Still, corporate directors believe, modern companies can't afford to take any chances. Quality CEOs just don't grow on trees. If you believe your company has one, you need to hold on to that executive — at any cost. Multiple millions for CEOs make perfect market sense, notes Pearl Meyer pay consultant Steven Hall, simply because "not many people have the God-given gift to run a corporation successfully."[152]

In the 1990s, in the considered opinion of corporate America, God appeared to be giving out fewer gifts. Throughout the decade, business leaders anguished about what they saw as a shrinking supply of top executive talent.[153] And that shrinking supply, they insisted, explained why CEO pay packages were soaring even where share prices were sinking. So why couldn't Americans get this supply-and-demand business straight and quit carping about excessive CEO pay? The public, as one business analyst at *Barron's* noted, needed to understand once and for all "that there's a sellers' market for executive talent and a scarce supply of people who can manage multibillion-dollar corporations."[154]

American business leaders take this scarcity as a given. How else, in a market economy, to explain rapidly rising CEO compensation? If quality CEOs were plentiful, executive compensation would not be soaring. But executive compensation *is* soaring, so qualified CEOs obviously must be few and far between — and totally deserving of whatever many millions they receive. That's simple market logic.

And simply wrong. American corporations today confront no scarcity of executive talent. The numbers of people qualified to run multibillion-dollar companies have never, in fact, been more plentiful then they are now.

These numbers have been growing steadily over recent years, in part because America's graduate schools of business, the world's most-admired prep schools for business leaders, have been graduating, for decades now, thousands of rigorously trained executives every year. America's first graduate school for executives, the Tuck School of Business at Dartmouth, currently boasts an alumni network over seven thousand strong. Alumni from the equally prestigious Harvard Business School total some sixty-six thousand.[155] Add in the alumni from other widely acclaimed institutions and the available supply of executives trained at top-notch business schools approaches several hundred thousand.[156]

Just how many of these academically trained executives have the skills and experience really needed to run a *Fortune* 500 company? Ten percent? Five? Let's assume, conservatively, that only 1 percent of the alumni from America's best business schools have enough skills and experience to run a big-time corporation. If this assumption were accurate, the seven or eight dozen Fortune 500 companies that go looking for a new CEO every year would be able to choose, at minimum, from between two and three thousand eminently qualified candidates. Do the math. Several thousand qualified candidates, less than a hundred vacancies. No supply shortage here.

Not all corporate insiders, to be sure, consider elite business schools a suitable source for top-notch executive talent. Some skeptics openly disparage the book learning that goes on in academic business training. They only trust and admire executives who have spent long years working their way up corporate ladders, learning lessons at corporate life's always demanding schools of hard knocks. These skeptics may or may not be right in their judgments about academic business schools. But they still have no valid reason to worry about a scarcity of executive talent. In today's globalized world economy, quality "graduates" from schools of hard knocks abound more plentifully than ever before.

Years ago, American corporations seldom looked beyond the borders of the United States for executive talent. That tunnel vision made sense. Executives inside the United States and executives outside worked in different business environments. Foreign executives could hardly be expected to succeed in an unfamiliar American marketplace, even if they did speak flawless English. But today, in our "global" economy, distinctions between domestic and foreign executives no longer matter nearly as much. In dozens of foreign nations, in hundreds of foreign corporations, executives are competing in the same global marketplace as their American counterparts. They're using the same technologies, studying the same data, and strategizing toward the same business goals. They are, in short, learning the same hard-knocks lessons. Together, taken as a group, executives from elsewhere in the world constitute a huge *new* pool of talent for American corporations.

Pay consultants in the United States already acknowledge the reality of this global marketplace for executive talent. In fact, they cite global competition as one important reason why executive pay in the United States is *rising*.[157] American companies now have to compete against foreign companies for executive talent, the argument goes. This competition is forcing up executive pay in the United States.

Really? What ever happened to market logic? If corporations all around the world paid their executives at comparable rates, market competition would certainly force up executive compensation worldwide. But corporations don't all pay executives at comparable rates. American executives take home far more compensation than their foreign counterparts. By classic market logic, any competition between highly paid American executives and equally qualified but more modestly paid international executives ought to end up lowering, not raising, the higher pay rates in the United States. Why, after all, would an American corporation pay $50 million for an American CEO when a skilled international CEO could easily be had for one-fifth or even one-fiftieth that price? We have here, in short, a situation that Jack Welch's deep, abiding faith in the "market" does not explain. In the executive talent marketplace, American corporations face plenty, not scarcity, yet the going rate for American executives keeps rising — even as more and more "low-wage" executives from foreign nations enter the competitive fray.[158] Has someone repealed the laws of supply and demand? How else could executive pay in the United States have ascended to such lofty levels?

Some analysts do have an alternate explanation to offer. Markets, they point out, still operate by supply and demand. But markets don't set executive pay.[159]

"CEOs who cheerlead for market forces wouldn't think of having them actually applied to their own pay packages," explains *Los Angeles Times* commentator Matthew Miller. "The reality is that CEO pay is set through a clubby, rigged system in which CEOs, their buddies on board compensation committees and a small cadre of lawyers and 'compensation consultants' are in cahoots to keep the millions coming."[160]

Markets didn't pay Jack Welch $75 million in 1999 — and over $50 million more than that in 2000. The old boys network did, and that network, unlike the fair, impartial market of Jack Welch's dreams, plays favorites all the time.

AMERICA'S CLUBBY, RIGGED SYSTEM does have its defenders. These candid insiders do not insult our intelligence with paeans to the eternal wisdom of the market. They concede the abundance of quality candidates for top executive positions. But corporate boards, these insiders contend, can't afford to gamble on an unproven talent, someone who *may* turn out to be a good chief executive. Boards simply can't risk placing a billion-dollar company in what may prove to be less than competent hands. They need, in effect, to insure themselves against failure — by hiring only top-notch, already proven talent.

Bill McClellan, a *St. Louis Post-Dispatch* writer, learned all about this play-it-safe approach in 1999, after he wrote a column blasting excessive executive pay.[161] A CEO of a major area company, a bit alarmed, gave McClellan a call and invited him to lunch. The chief executive didn't want to rant. He merely wanted to help McClellan better understand the facts of corporate life.

Stock options, the CEO admitted, are indeed soaring out of control, and corporate boards often do get too cozy with their hired help. Even so, the executive noted, a smart company can't ever "pay a good CEO too much" because the alternative, having a bad CEO, can send a good, decent company to ruin.

"If you have a boss who just doesn't get it," the CEO explained, "he's not going to appreciate people who do. He will be drawn to people like himself. He certainly won't be promoting people who disagree with him."

"Soon, then, you'll have a culture of bosses who don't get it," the CEO continued. "The company will begin to flounder. Morale will plummet. Talented people will begin to leave. The company will go into a free fall."

Such could be the unhappy fate of any company that ends up with just "one bad boss." To avoid this sort of calamity, a responsible corporate board must always move heaven and earth to hire the best boss possible and only the best. By paying top dollar, and higher, the CEO explained to McClellan, "you're ensuring quality."

In the 1990s, venture capitalists and other significant investors subscribed wholeheartedly to this "one bad boss" theory. These investors insisted on proven, top-notch, top-dollar CEO talent for the start-ups they bankrolled. Start-ups like Webvan, the high-profile Internet retailer that humbly aimed "to revolutionize the grocery industry."[162]

Price would be no object in Webvan's search for a CEO talented enough to lead the company to corporate glory. Webvan would find and hire the best, most capable chief executive available. And who might that most capable executive be? Who could possibly be more capable, Webvan's underwriters reasoned, than the CEO of a company that makes money telling other CEOs how to run their companies? That chief executive was George Shaheen, then the $4-million-a-year top executive at Andersen Consulting, "one of the largest, richest and most prestigious management-consulting firms on earth."[163]

Shaheen did not come cheap. To bring him on board, Webvan had to shell out a $13.5 million signing bonus and stock options valued at $123 million.[164]

"Essentially, Webvan was paying up front for Shaheen's cachet, his experience and his connections in the high-technology and financial worlds," an industry trade journal noted. "Webvan hired him because he was George Shaheen."[165]

Shaheen, brought on in 1999, had big plans for Webvan. By the end of 2002, he pledged, the company would be delivering groceries ordered over the Internet in twenty-six markets across the United States. Investors were thrilled. Cash poured into Webvan, $393 million in venture capital and then $402 million more from an IPO of the company's stock.[166]

With $800 million raised, with executive superstar Shaheen sitting in the CEO chair, Webvan couldn't miss. Or so Wall Street thought. But success was not to be. Webvan proceeded to lose more than $600 million in less than two years, including $453 million in 2000 alone. By the following spring, the company found itself having to raise another $60 million just to have a prayer of sticking around another year. Those extra dollars never materialized. In April 2001, Shaheen resigned. Webvan's stock, once sailing along at $34 a share, had dropped to 8 cents.[167] Glory would have to wait.

Shaheen, meanwhile, walked off with his own personal insurance policy, a retirement package he had negotiated before he started as Webvan's CEO. That package, on paper, guaranteed the fifty-seven-year-old Shaheen $375,000 a year from Webvan for the rest of his life.[168] Unfortunately for Shaheen, Webvan went belly up three months after his resignation, ending, somewhat prematurely, his guaranteed "lifetime" annuity.[169] George Shaheen, Webvan's costly insurance policy against failure, couldn't, in the end, even insure himself against failure.

IN ANY LARGE, COMPLEX ORGANIZATION, one person can always make a meaningful contribution to the enterprise's eventual success. But no single individual, not even a chief executive, can guarantee enterprise success, no matter how many dollars are stuffed into that one person's pocket. In generations past, business leaders accepted this simple insight as a matter of course. They expected hard work from the executives they put in positions of authority, not miracles. Top executives could make a positive difference. But so could any other company employee. All were hired hands. No more, no less. Chief executives deserved more, of course, than other employees, but not that much more.

A century ago, America's most powerful business leader, the financier J. Pierpont Morgan, actually quantified how much more. In the companies Morgan controlled, chief executives would earn, at most, twenty times the compensation of the companies' most lowly paid workers. A hundred thousand dollars for a CEO? A million dollars for a CEO? Morgan would have considered such sums totally undeserved. The millions were for corporate America's owners, not their hired help.

In Morgan's time, America's most powerful corporations still largely belonged to the men who initially launched them. These founding owners, the nation's business leaders believed, fully deserved whatever immense wealth their corporations brought them. This divine right of founder to fortune lives on today, in our contemporary celebration of the entrepreneurial spirit. Anyone with enough vision and spunk to create a grand enterprise, we believe, deserves an equally grand reward. We see entrepreneurs as heroes. We salute their achievement. We honor their memory.

Mere "managers" — top executives who make their fortunes by running grand enterprises, not creating them — have a much harder time winning our admiration. Indeed, the hundreds of millions earned by these top executives, CEOs like Disney's Michael Eisner, may even leave us a bit uneasy. A board of directors, after all, handed Michael Eisner the keys to the executive suite. But nobody ever handed *the* Walt Disney — Uncle Walt — anything. He built a great company by dint of individual effort. So hats off to the great entrepreneurs like Uncle Walt. They did it their way. That they be richly rewarded for their achievement is the American way.

But just how much credit for their success do our nation's greatest entrepreneurs really deserve? Just how individual is *their* achievement?

We ought to ask. The answer makes a difference. If entrepreneurial achievement is not as heroically individual as entrepreneurs claim it to be, then the massive rewards that flow to the executives who *create* corporate giants ought to give us as much pause as the massive rewards that go to executives who *manage* corporate giants.

In our era, no executive has created a grander corporate giant than Bill Gates. At a ripe young age, this remarkable entrepreneur co-founded what would go on to become the world's most highly valued enterprise. In the process, Gates became the world's wealthiest single individual, amassing more money in twenty years than the average American could accumulate in half a million lifetimes. Is this fortune an appropriate reward for an exceptional individual effort? Let's review the record.

Bill Gates came into the world, in 1955, as the son of a stable, caring, well-educated family of means. Young Bill would attend the finest schools, winding up as an undergraduate at Harvard. He would develop, as a student, an abiding passion in computers. Other students his age developed passions, too. Most had to shunt them aside. They needed to graduate, find a secure job, and pay off college loans. Young Bill Gates, scion of a secure family, had the freedom to follow his muse. He would drop out of Harvard and start a computer software business with a friend.

The business, Microsoft, would bob along, jostling for attention with hundreds of other fledgling new businesses. Then, in 1980, young Bill Gates would get a break. IBM couldn't be bothered to develop a software "operating system" for the new personal computer Big Blue was about to bring to market. Gates, ever alert, would convince IBM to let his Microsoft supply the operating system. Just one problem: Microsoft didn't have one. Gates neatly sidestepped that dilemma by buying an operating system, for less than $100,000, from another fledgling entrepreneur.[170]

Over the next few years, IBM's personal computers would introduce computing to tens of millions of Americans. Microsoft would collect a royalty on every computer IBM sold. Business analysts would later call IBM's agreement with Microsoft "one of the biggest business blunders of modern times."[171]

IBM, as part of that blunder, gave Microsoft the "exclusive right" to market the new operating system for IBM computers, MS-DOS, to other computer makers.[172] Microsoft would make the most of that right. Other computer makers, to gain the right to use MS-DOS, had to agree to pay Microsoft a licensing fee on *every* computer they sold, even those computers they sold without Microsoft's operating system installed inside.[173] The U.S. Justice Department would later, in 1994, ban all the agreements that required computer makers to pay fees for Microsoft's operating system even if they didn't use it. Too late. Microsoft's monopoly had already taken firm hold. The company had become a money machine.[174] Bill Gates had become phenomenally rich.

And deservedly so, some might say. Bill Gates made his own breaks. At every turn, he outsmarted his competition. True enough. But young Bill had some help along the way. Help, in the first place, from his loving parents whose resources opened up one wonderfully enriching opportunity after another. But help also from people not so near and dear, help from the taxpaying public of the United States.

American taxpayers bankrolled the computer technology that so captured the imagination of young Bill Gates. The first real computer produced in the United States was built for the U.S. Census Bureau. Microprocessors — and the software necessary to use them — were evolved by the scientists working on guidance systems for federally funded ICBMs and NASA rockets.[175] In all, over the first dozen years of the modern computer age, the federal government financed eighteen of the twenty-five "most significant advances in computer technology."[176] A few years later, the Internet would begin as a taxpayer-funded project designed to help scientists "share research and computing resources."[177]

Without tax dollars, the computer opportunities that Bill Gates so artfully seized would not have existed. Nor would a market have existed for the software Bill Gates sells. Tax dollars financed the schools that created the literate public necessary to sustain the new Information Age that so enriched Bill Gates and his fellow entrepreneurs.

The simple truth in all this? No achievement, not even the greatest entrepreneurial success of our times, is ever entirely individual. All achievement is shared, even if rewards may not be.

History's most creative achievers, to their credit, have always recognized the social roots of their success.

"If I have been able to see further," Sir Isaac Newton once noted, "it was only because I stood on the shoulders of giants."

"Many times a day," Albert Einstein would add centuries later, "I realize how much my outer and inner life is built upon the labors of my fellow-men, both living and dead."[178]

Great thinkers like Newton and Einstein could see the social realities behind their individual achievement. Most contemporary wealthy achievers cannot. Wealth tends to blur their vision. They have trouble noticing, as their wealth accumulates in ever higher piles, the contributions that others have made to their individual good fortune. They come, over time, to credit themselves for their awesome financial success. An understandable conclusion, at least psychologically speaking. After all, if multiple people stand behind each wealthy person's individual achievement, then whatever rewards that achievement might bring ought to be shared broadly, not concentrated in the pockets of one person. And if rewards should concentrate in one person's pockets, by what right can that one person claim to deserve them? If you yourself should have overstuffed pockets, why even raise this discomforting question? Better to assume that grand fortunes come, like gold medals to speedy sprinters, only to those who simply outrun the competition.

In every age, some people of ample means do dare ask discomforting questions. In our age, several have emerged. In 2003, one of these free-thinkers barnstormed the United States, asking these tough questions at gatherings big and small. That freethinker? None other than Bill Gates Sr., the father of the world's richest man.[179] Gates Sr., now retired from a successful Seattle law practice, currently runs the $24 billion foundation his son created. In that capacity, Gates Sr. has traveled the world and witnessed, first-hand, the social advantages that accrue to some people and not to others.

"There are a lot of Americans," Gates Sr. has concluded, "who do not recognize that their financial comfort is a consequence of conditions and programs in this country that made it possible for them to be wealthy."[180]

What proportion of their great fortunes do the wealthy owe to their social surroundings? In 2001, during Senate debate on the future of the federal estate tax, the only tax in the United States levied on accumulated wealth, Gates Sr. ventured an estimate.

"Imagine that two infants are about to be born," he suggested to a Senate subcommittee. "God summons their spirits to his office and makes them a proposition. One child will be born in a prosperous industrialized country, the United States. Another child will be born into a country of society-wide abject poverty. God proposes an auction for the privilege of being born into the United States. He asks each new child to pledge a percentage of his earthly accumulation at the end of his life to the treasury of God. The child who writes the highest percentage will be born in the United States. Does anyone think either child would pledge as little as 55 percent, the current top estate-tax rate?"[181]

The Senate would be duly unimpressed. Several months later, a Senate majority would endorse the Bush administration's proposed repeal of the estate tax. The vote disappointed, but did not surprise, Bill Gates Sr. A "myth of individual merit and success," he believes, now dominates America's public discourse about wealth and wealth-holders. But great wealth, he points out at every opportunity, "is never entirely the result of individual achievement."[182] To maintain the fiction that it is, we must by necessity "dismiss the incredible contribution our society makes to creating the fertile soil for successful private enterprise."

We make other misjudgments about wealth as well.

"We underestimate," notes Gates Sr., "the role of luck, privilege and God's grace in our good fortune."

And what a huge role that is.

JOHN D. ROCKEFELLER ONCE DESCRIBED becoming rich as a three-step process. "One, go to work early," he's reputed to have noted. "Two, stay late. Three, find oil."[183] Many millions of people in the world today routinely follow John D.'s advice. They go to work early and stay late. A few "find oil" and move on to become wealthy. Most, the overwhelming majority, do not. Why not? Do people in the non-wealthy majority not work as diligently as the wealthy few? Are they less disciplined? Less focused? Less tenacious? Less, in short, deserving? Some people may think so, but most of us have come to understand, as we grow older, that virtuous habits cross class lines. Hard-working, disciplined, focused, and tenacious people, we have learned, can be found at every income level. Noble efforts, we realize as we mature, do not guarantee great fortune. Nor do dishonorable, even contemptible, behaviors necessarily shove riches out of reach. Lazy, lying, and larcenous people, we know from experience, can and do regularly become rich.

But lazy, lying, and larcenous behavior, we also understand, does not guarantee great fortune either. Most despicable people we know, or have known, aren't particularly rich. So what does separate the rich from the rest of us? Just dumb luck, the vicissitudes of happenstance? To a large extent, yes. Dumb luck determines, to a surprisingly huge degree, who amasses massive wealth.

Ask Ralph Roberts. In the early 1960s, Ralph ran a belt-making business. But then along came Sansabelt pants — the beltless trouser fashion sensation — and Ralph felt sure this new craze "was going to wipe out the belt business."[184] So Ralph sold off his belt-making operation. Ralph now needed a new line of work. He found it, at a friendly poker game. A "two-bit" cable television start-up in Mississippi, he learned, was looking for investors. Ralph took the plunge. He sunk a chunk of his belt-business proceeds into the Tupelo cable system. Thirty years later, Ralph's cable business, renamed Comcast, would be worth billions.[185]

"I begin every day saying, 'Thank God he sold the belt business,'" Ralph's son, Comcast President Brian Roberts, would later note.[186] Sansabelt pants never did wipe out belts, demonstrating once again, as Brian Roberts readily points out, that "luck is a big part of life."

Scholars who study entrepreneurial success have come to the same conclusion, notes Roy C. Smith, the former investment banker who became a professor of entrepreneurship and finance at New York University. "Academics have been studying self-made businessmen for a few decades, looking for the keys to success and a methodology to teach to young, would-be entrepreneurs," writes Smith, but that search has not yet found "a simple, repeatable formula."[187]

"Indeed," Smith adds, "many academics have come to believe that great entrepreneurial success is usually a random event, influenced as much by luck as by skill."

That same luck, other academics point out, has been driving up executive paychecks. Two of them, economists Marianne Bertrand of Princeton and Sendhil Mullainathan of MIT, have actually computed the precise impact of luck on executive pay. The two focused their research on the oil industry. They identified the factors that impact stock prices that oil executives can't do anything to influence, everything from the world price of oil to the dollar's exchange-rate value, then calculated the share of oil executive pay that comes from events oil executives cannot control. Their conclusion, as summed up by one reporter: CEO pay "goes up from luck as much as from performance."[188]

In the 1980s and 1990s, Bertrand and Mullainathan's oil executives were lucky enough to be at the right place at the right time, as were almost all America's top executives. CEOs at the end of the twentieth century didn't need to "find oil." They just needed to ride Wall Street's bull market. The higher that market rose, the richer their rewards.

But dare we call *all* the multi-million fortunes executives have amassed over recent years lucky? Don't some of these fortunes reflect admirable intelligence and insight, not just fortuitous chance? How can anyone, for instance, dismiss as merely "lucky" the fortune accumulated by someone as dedicated and diligent as Eric Schmidt?

Not many executives entered the twenty-first century more widely respected, within American business circles, than Eric Schmidt. His vita shouted merit on every page. Schmidt, forty-five years old at the century's turn, had studied electrical engineering at Princeton and Berkeley, two of the world's most demanding educational institutions. After school, he had honed his high-tech skills at the Xerox Palo Alto Research Center in California, the legendary computer science hotbed that birthed the drop-down menu and the desktop mouse. Schmidt had then translated his technical expertise into business success, first as chief technology officer at Sun Microsystems, later as chief executive of Novell, what had been a troubled computer networking company. Novell, under Schmidt, did an abrupt about-face, and close observers gave Schmidt the credit.[189]

For his labors at Novell, Schmidt took home $7 million in 1999, on top of $4 million in 1998.[190] His financial future would soon turn even brighter. In 2001, Google, the hot new search engine company, would name Schmidt its CEO.

How could anyone possibly dismiss as "luck" Eric Schmidt's personal achievement? Whose career success could be more "earned," more deserved, than his?

None of us, in one sense, have the right to judge anyone's personal achievement. We do not know — we cannot know — all the defining moments that shape the trajectory of an individual life. We cannot know if a principal's random decision placed Eric Schmidt into the classroom of a teacher inspiring enough to turn young Eric on to technology. We cannot know if Schmidt had a chance encounter with a colleague who just happened to mention an interesting job opening at Sun Microsystems. Nor do we have any idea if Schmidt, early in his tenure at Novell, received an insightful, unsolicited e-mail that may have helped him understand just where the struggling company had been going wrong. Only a person who lives a life can truly know all the chance moments that may have shaped it. Wise people remember these moments as they look back on their lives. Eric Schmidt may be one of these wise people.

"Lots of people who are smart and work hard and play by the rules don't have a fraction of what I have," he told a reporter after making his fortune. "I realize I don't have my wealth because I'm so brilliant. Luck has a lot to do with it."[191]

And the grander the wealth, the more important luck's role will likely have been, as even the lustiest cheerleaders for concentrated wealth sometimes acknowledge.

"Want to get rich?" as *Forbes* headlined a 1997 story about the four hundred richest Americans. "Don't get born in Afghanistan."[192]

And don't forget, *Forbes* added, that "even folks who are gifted, and did it all themselves, cannot possibly end up with a net worth of $475 million (the cut-off on this year's list) without having won some huge crapshoots along the way."

SURELY THERE MUST BE MORE to becoming wealthy than luck. There surely is. There are connections. You don't need to be particularly smart, industrious, or even lucky enough to find oil to become rich. You just need to know the right people.

Business mythologists have, down through the years, always tried to minimize the role connections play in the lives of the economically successful. Good ideas, they hope we believe, will eventually be rewarded. Invent a better mouse-trap and the world will beat a path to your door. To succeed and become wealthy, American business folklore insists, you don't need to come from "proper" society. You don't, any more, even need to be the "right" color. American business only cares about one color, green. If you have a clever enough business proposition, you'll always be able to find someone willing to bankroll your idea and set you on the road to riches. You don't, in short, need to know the "right" people. If you're good enough, if you're deserving, the right people will find you.

In the 1990s, business boosters prattled endlessly about the historic opportunities open to anyone with genius and grit. Financial angels and venture capitalists — rich people with plenty of spare cash to invest — stood ready to make our entrepreneurial dreams come true. The rest of us just needed to be bold enough to do the dreaming. We had evolved, as a nation, into the ultimate economic meritocracy. Visionary sees the future. Investors capitalize the vision. Visionary hits the jackpot.

"Yeah, right, anybody can raise capital for an Internet company," one skeptical chief executive deadpanned in response, "if they know the same guys that I do."[193]

That skeptic was Eric Schmidt, our CEO wise man. Schmidt looked over the business landscape and didn't see triumphant visionaries. He saw a business world where the right connections, not the best ideas, separated flops from fortunes.

In 1993, San Francisco entrepreneur Halsey Minor seemed destined to become one of those flops. His high-tech information service, CNET Inc., wasn't making any money. Investors wouldn't give him the time of day. Bills went unpaid. Minor did everything he could to keep his vision treading water. He sacrificed. He "maxed out his credit cards." Nothing worked. All seemed lost. He was ready, then and there, "to throw in the towel." Then, to the rescue, came a connection, "a well-to-do friend" with "a last-minute cash infusion." CNET would survive. By 1997, Halsey Minor would be worth $73 million.[194]

Minor, of course, didn't succeed *only* because he had a connection. Minor did have an idea. But ideas, in the pursuit of wealth, are optional. Connections, and connections alone, can build grand fortunes. If you are well enough connected, you need not bring any ideas, knowledge, or talent to the task at hand. You need only to know how to schmooze.

In 2000, for instance, Washington lawyer Vernon E. Jordan Jr., a mover and shaker in and around the Clinton Administration, agreed to become a partner at Lazard Freres & Co., a private Wall Street banking firm. Jordan, at the time, had not one iota of banking experience. He had connections. He was someone, as one Lazard Freres executive explained, "who could get CEOs on the phone." For this talent, Lazard Freres promised Jordan $5 million a year for five years, plus a suite in one of New York's most expensive hotels and a bonus "based on performance."[195]

Connections can take the connected to far loftier heights than penthouses in Manhattan. Witness the remarkable career of America's most famous multimillionaire of distinctly modest talents, the forty-third President of the United States, George W. Bush.

The grandson of a United States senator from Connecticut, the son of a rising political star within Texas Republican ranks, young George W. began his rise to wealth, power, and fame by compiling an undistinguished prep school academic record. His grades and test scores would show no great promise — or sign of diligent individual effort. Young George would matriculate at Yale anyway, where his family connections guaranteed him a "legacy" admission.[196] At Yale, George W. would compile another undistinguished academic record. Nor did he engage himself, extracurricularly, as either a participant or critic in the turbulence of late 1960s college life. He would sail through four years at Yale, evincing little interest in anything collegiate outside elite secret societies.

After graduation, in 1968, young George sidestepped Vietnam by slipping into the Texas Air National Guard. Connections greased the way. He then worked, for a time, at an agricultural conglomerate run by one of his dad's former employees. Another connection. In 1977, George W. finally struck out on his own, more or less. He started his own oil company, Arbusto Energy Inc. Arbusto, the Spanish word for "bush," did not actually try to find any oil. Arbusto, instead, invested in wells drilled by other firms. Where would Arbusto obtain the money to make these investments? The money would come from connections — wealthy Bush family and friends.

"The list of investors," one later analysis would note, "was remarkable for a young company owned by a man of 32 with scant experience and virtually no track record."[197]

Arbusto would eventually totter toward bankruptcy and only be saved, in 1984, by a timely merger with another company. Two years later, this merged company would be bought out by still another company, the Dallas-based Harken Energy. Halfway through 1990, after a murky series of wheels and deals, George W. would cash out of Harken with nearly $850,000 in stock profits, not long before the company "reported a $22-million loss."[198]

That neat little profit would later come in handy — for George W.'s career change. A few years earlier, George had been longing for something more substantial in life than gooey black gold. Fortunately, to help him set out on a new path, he had still more connections, namely Eddie Chiles, the owner of the Texas Rangers baseball team and a long-time supporter of George W.'s daddy. All was not well for Eddie Chiles. He had been ailing and needed, for health and financial reasons, to sell his Rangers. George wanted them. Unfortunately, George did not have nearly enough cash on hand to buy them. Chiles, fortunately, would be understanding.[199] He would give young George the opportunity to raise the needed purchase price. George W. would promptly collect financial commitments "from a Yale classmate, the classmate's business partner, one of his father's campaign aides and the husband of a Bush cousin."[200] But these commitments only took him half way home, and the other half appeared out of reach after Richard Rainwater, a deep-pockets investor from Fort Worth, rejected George's invitation to ante up. George's bid for the Texas Rangers seemed dead in the sage brush.

Outside Texas, this sad news would upset a powerful man, Peter Ueberroth, the commissioner of Major League Baseball. Ueberroth liked the idea of having the son of a President of the United States own a baseball team. Ueberroth went to work. He would personally persuade George's balking investor, Richard Rainwater, to fork over the additional dollars George needed. In April 1989, thanks to that help, George W. Bush would become a baseball owner. In all, he had put up, out of his own pocket, $606,302, which he had borrowed. That gave him, mathematically speaking, a 1.8 percent stake in the team. His grateful investor teammates would grant him an additional 10 percent share — and a $200,000 salary as the managing general partner.[201] Later, after his Harken windfall, George would have the cash to pay back the $606,302 he had borrowed.[202]

With the Texas Rangers, George W. had finally found his element. As partner numero uno, he could schmooze to his heart's content. He would represent the Rangers at baseball meetings. He would give speeches to fans. He would even get to approve player trades. What incredible fun. The team, meanwhile, would start climbing in the standings. Attendance would climb, too, thanks in no small part to a beautiful new stadium, The Ballpark at Arlington, built with $135 million kindly supplied by taxpayers.[203]

George W. had become a high-profile businessman, successful, he would proudly note, "by any objective measure." Boosted by this high profile, George would soon spring into state politics. He would run for governor in 1994 as a can-do business executive. He would win. He would also become an extremely rich man, after the 1998 sale of his beloved Texas Rangers. The team's value had tripled. George W. would clear a $14.9 million personal profit, not a bad return on a $606,302 original investment.[204]

To what did George W. owe all this good fortune? Mere connections? He would scoff at this insulting insinuation, in 1999, as he geared up to run for President.

"Thanks to the integrity of my dad and mom, I've inherited a great name that has sometimes opened doors and sometimes slammed them shut," he explains. "But the business world is a world of results and performance, and having a famous last name didn't strike oil or conceive and build The Ballpark at Arlington, or help the team's win-loss record. And my name hasn't made any decisions for me as governor."[205]

The gospel according to George W. Bush. He didn't connect his way to success. He delivered, on his own. Such are the ways the wealthy see the world. They must surely deserve their good fortune. Why else would they have it?

WHAT IF GEORGE W. IS RIGHT? What if these pages are somewhat exaggerating the role chance plays in human affairs? After all, an admirer of George W. might argue, some people do find themselves in the right place at the right time. But that good fortune does not guarantee them a grand fortune. Nor does knowing the right people automatically make anyone fabulously wealthy. Happenstance merely creates opportunities. Those lucky enough, or well connected enough, to have opportunities still have to *do something*, in some way, before they can cash in. George W. Bush had to win taxpayer approval for a new ballpark. He deserves credit — and considerable reward — for doing what had to be done, doesn't he? Not just anybody could have done what he had to do.

Actually, many of us *could* have done what George W. had to do, and just as well as he did, if not better. In fact, a great many of us, if good fortune were to suddenly pluck us up and sit us at the top of some *Fortune* 500 enterprise, would do just fine — because we would have help. The same help that executives currently at the top receive.

Individuals, as they rise in corporate hierarchies, make more money. We all know that. But rising executives don't just make more money. They get more help. The higher up in an enterprise any executive sits, the more help that executive will receive. At the summit, for those who occupy a *Fortune* 500 chief executive suite, extraordinary amounts of help are available. Corporate America surrounds executive suites with legions of people compensated, some quite handsomely, to help those at the top succeed — and look good doing it. Chief operating officers are on hand to make sure, day by day, the company runs smoothly. Chief financial officers keep and cook the books. Chief information officers peer into the technological future. Executive vice-presidents develop strategic plans.

But the buck stops at the chief executive's desk, right? And life's lonely at the top, right? And no one else is paid to see the big picture, right?

Actually, plenty of people are paid to see that big picture. They're called management consultants. Executives at the top tap the talents of these consultants all the time, so much so that management consulting has become, on an annual basis, an $89 billion industry worldwide, with three-fifths of that business in the United States.[206]

"We live in paradoxical times," marvels one *New York Times* business analyst. "Executive compensation is spiraling out of control, yet the more companies pay their chief executives, the more help they seem to need with basic questions like 'What business are we in?' and 'Where do we go from here?'"[207]

Think you might need still more help than all this to succeed as a chief executive? Fine. The help is there. Not just speechwriters to make you sound smart, but speech coaches to help you enunciate more forcefully. Not just secretaries to keep your schedule, but fashion experts to help you dress your best. Not just executive search companies to help you hire qualified people, but executive assistants to drop the bad news on people you want to let go. In this incredibly supportive environment, large numbers of us would probably be able to function just fine. We would make blunders. We would make lucky guesses. We would muddle through — just like the executives who currently sit at the top. And why should that surprise us? In our most basic capacities, we *are* just like the executives who currently sit at the top.

Take it from an unlikely source, Alan Greenspan, the chairman of the Federal Reserve Board, a hero, for most of the 1990s, to almost every executive who sat in a CEO seat.

"The vast majority of things which human beings can do," Greenspan once told a San Francisco audience, "everyone can do, and the difference between those basic skills relative to what the base is, is really very small."[208]

And if the differences between us are so very small, and if many of us, given the small differences between human beings, could function reasonably well if chance or connections placed us atop a grand enterprise, then by what stretch of reason can someone currently atop a grand enterprise deserve to earn more in a week than any average American could earn in a lifetime?

Maybe George W. knows.

INTELLIGENCE DOES NOT GUARANTEE WEALTH. Nor does hard work. Nor vision. Nor good looks, hustling, miserly behavior, or simple ruthlessness. All these factors may help grow grand fortunes. None assure them. Even luck and connections don't guarantee that riches will be forthcoming. All incredibly wealthy people may at some level be lucky. But not all lucky people are incredibly wealthy.

Is there, then, any sure route to wealth? Just one. Inheritance. People born into families of great wealth tend to become, with unfailing regularity, wealthy themselves.

Inheritances leave defenders of inequality uneasy. Great wealth, these defenders tirelessly proclaim, encourages and rewards great effort. But those who inherit great wealth need not make any effort at all.

"To the extent that resources are distributed on the basis of inheritance," as historians Robert Miller, Jr. and Stephen McNamee point out, "they are not distributed on the basis of merit."[209]

Inheritances cannot be defended, in any credible way, as "earned." But they can be dismissed — as increasingly unimportant, in the modern world, to economic success. Apologists for inequality have rushed, in recent years, to make just this case. Inheritances, they argue, may once have been a big deal. No longer. Rich people today make themselves rich.

"Forget old money. Forget silver spoons," *Forbes* exclaimed in 1996, introducing the magazine's annual list of America's richest four hundred. "Great fortunes are being created almost monthly in the U.S. today by young entrepreneurs who hadn't a dime when we created this list 14 years ago."

"More than ever before, today's wealth is a product of personal achievement rather than inheritance," marveled conservative commentator Dinesh D'Souza four years later. No one can responsibly argue, added D'Souza, "that most of today's affluent got that way by choosing their parents carefully."[210]

Some recent social science research appears, at first glance, to bolster this conservative case. In the mid 1990s, for instance, studies by the Rand Corporation and the Brookings Institution concluded that rich people, for the most part, owe their fortunes to their own personal labors. But these studies focused on upper middle class professionals and managers, people earning

$100,000 to $300,000 a year, and ignored, as political scientist Michael Parenti points out, the very rich.[211]

Scholars who do include the very wealthy in their calculations find that inheritances do make a significant contribution to America's total personal wealth. How much of a contribution? The scholarly estimates vary wildly. Americans, taken as one group, owe somewhere between 20 and 80 percent of their personal wealth to inheritance.[212]

But scholars do agree on one point. The bulk of the wealth that is inherited slides into relatively few pockets. Hardly any Americans ever see an appreciable inheritance. One study, on the 1983-85 period, estimated that only 4 percent of Americans had ever received a bequest.[213] More recent research, discussed in a paper published in 2000 by the Federal Reserve Bank of Cleveland, found that 92 percent of Americans have never seen an inheritance. Just 1.6 percent, the study found, have inherited more than $100,000.[214]

Statistics can only tell us so much. Case studies — financial life histories of the very wealthy — can help us understand far more clearly just how important inheritances are to great fortunes. Researchers from the Boston-based United for a Fair Economy compiled a good number of these life histories for an analysis of the 1996 *Forbes* list of America's most affluent. Just over half of these four hundred wealthiest Americans, this research found, inherited at least $50 million. Another 20 percent were born into families wealthy enough to sit in America's most affluent tenth.[215]

"This is what most people might call," the researchers noted, "a 'head start.'"

In any pursuit of great fortune, head starts can be remarkably valuable, mainly because the easiest way in the world to amass wealth is to have some.

"To turn $100 into $110 is work," as Seagrams billionaire Edgar Bronfman once put it. "To turn $100 million into $110 million is inevitable."[216]

Money makes money. In the closing decades of the twentieth century, money made money at astonishingly rapid rates. Consider, as the *Economist* magazine has, a typical wealthy Manhattanite circa 1983, a millionaire with $500,000 in stock holdings and a $500,000 apartment. That Manhattan millionaire, if he sat in that apartment for the next fifteen years and did nothing more strenuous than glance at the stock tables in the daily paper, would have seen his net worth increase by $5 million.[217]

Suppose that millionaire had inherited that original $500,000 in stock and $500,000 apartment. How much of that subsequent $5 million should be considered "earned" — and deserved? Should the millionaire's entire $6 million fortune be credited to his inheritance? Or should the $5 million from stock and real estate appreciation be credited to the millionaire's "good sense" to hang on to his stock and apartment? Answers to questions like these can vary, one reason why scholarly estimates on the impact of inheritances on personal wealth also vary.

Some people, of course, would have no problem classifying the entire $6 million accumulated by our Manhattanite millionaire as eminently earned. Some people, as Texas populist Jim Hightower likes to explain, "were born on third base and think they hit a triple."[218]

THOSE UNTROUBLED BY INEQUALITY invariably end up ascribing unequal outcomes to individual behaviors. Those who have little wealth, the comfortable argue, have no one to blame but themselves. They have squandered away opportunities and loafed while others were laboring. Those who did that labor, those who seized their opportunities, have considerable wealth to show for their noble efforts, as by all rights they should.

This assumption that merit determines how societies distribute their bounty convincingly explains, for some people, why certain individuals enjoy more wealth than others. But this explanation, the unconvinced point out, starts wobbling whenever people's economic fortunes suddenly change on a mass scale, as they invariably do. In the 1930s, for instance, the jobless rate in the United States tripled. Did millions of Americans suddenly become lazy? Similarly, in the last twenty years of the twentieth century, the richest 1 percent of Americans more than doubled their share of the nation's wealth. Did America's wealthy suddenly become twice as smart or hard-working, twice as worthy?[219]

Perhaps the wealthy, some reasonable people conclude, did become twice as worthy. How else to explain the massive rewards that have been flowing to the top?

"The numbers are so big, you just have to wonder if anyone is worth that much money," muses David Larcker, a business professor at the Wharton School. "But in some cases, maybe they are."[220]

Or maybe people at the top of the economic ladder didn't become more deserving. Maybe they just became more powerful.

Some academics seem headed toward this conclusion. These scholars can't find any rational business reason why America's top business executives have been able to quintuple their pay over recent years. Executive pay increases have outpaced profits, outpaced rising share prices, outpaced revenues from sales. Researchers, these scholars suggest, perhaps ought to pay less attention to balance sheets and more attention to corporate power dynamics — to the many different ways, political and economic, that executives manipulate power to bolster their personal bottom lines.[221]

Graef Crystal, the pay consultant turned academic, sometimes sees rewards at the top in these same power-dynamic terms. His research has also unearthed no rational links between how executives perform and how, over recent years, they have been rewarded.

"Most of it is simple piggery," Crystal told one reporter in 1996, "they grabbed what they could."[222]

And kept it.

"How do you distinguish," the conservative columnist George Will once asked, "between money earned and money merely taken?"[223]

Will's question matters. That you deserve everything you can take, you can grab, is the law of the jungle. We deserve better.