

EXECUTIVE EXCESS 2011

18th Annual Executive Compensation Survey

The Massive CEO Rewards for Tax Dodging



CO-AUTHORS

Sarah Anderson

Chuck Collins

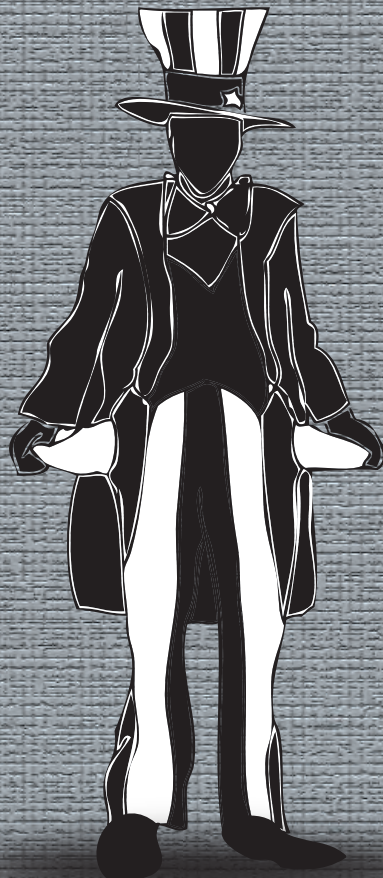
Scott Klinger

Sam Pizzigati

Researcher

Marlee Blasenheim

August 31, 2011



About the Authors

Sarah Anderson directs the Global Economy Project at the Institute for Policy Studies and has co-authored the 17 previous IPS annual reports on executive compensation.

Chuck Collins, an Institute for Policy Studies senior scholar, directs the IPS Program on Inequality and the Common Good. He is the co-author of *The Moral Measure of the Economy*.

Scott Klinger, an Institute for Policy Studies associate fellow, began his work on executive pay excess back in the mid-1990s when he crafted the first shareholder proposals on executive pay while working as a social investment portfolio manager. He is a CFA charterholder.

Sam Pizzigati, also an IPS associate fellow and the author of *Greed and Good: Understanding and Overcoming the Inequality That Limits Our Lives* and edits *Too Much*, the Institute's online weekly on excess and inequality.

Acknowledgements: The authors would like to thank the following for providing valuable comments on this report: Charlie Cray, Center for Corporate Policy; Rebecca Wilkins, Citizens for Tax Justice; and Vineeta Anand, AFL-CIO.

Report design: Erik Leaver

Cover design: Adwoa Masozi



The Institute for Policy Studies (IPS-DC.org) is a community of public scholars and organizers linking peace, justice, and the environment in the U.S. and globally. We work with social movements to promote true democracy and challenge concentrated wealth, corporate influence, and military power.

© 2011 Institute for Policy Studies

For additional copies of this report or past editions of Executive Excess, see <http://www.ips-dc.org/globaleconomy>.

Institute for Policy Studies

1112 16th St. NW, Suite 600 | Washington, DC 20036 | Tel: 202 234-9382 | Fax: 202 387-7915

Web: www.ips-dc.org

Email: sarah@ips-dc.org

Table of Contents

I. Key Findings.....	1
II. Introduction: The Intersection Between Executive Excess and Tax Dodging	3
Box: How High CEO Pay Lowers Corporate Tax Bills	7
III. Companies that Pay Their CEO More than Uncle Sam – 10 Examples	9
1. International Paper Company	9
2. Prudential Financial	10
3. General Electric.....	10
4. Verizon.....	11
5. Bank of New York Mellon	11
6. Boeing.....	12
7. Marsh & McLennan	12
8. Stanley Black & Decker	13
9. Chesapeake Energy.....	13
10. eBay	14
Box: Rule Changes to Inhibit Corporate Tax Dodging	14
IV. Executive Pay Reform Scorecard	15
The Passed.....	17
The Pending	22
The Promising.....	26
Appendix 1: Companies that Paid Their CEOs More than Uncle Sam: Compensation and Taxes	31
Appendix 2: Companies that Paid Their CEOs More than Uncle Sam: Global Profits, Political Expenditures, and Headquarters.....	32
Appendix 3: Companies that Paid Their CEOs More than Uncle Sam: CEO Education Backgrounds	33
Appendix 4: Sources, Methodology, and Terminology	34
Endnotes.....	37

I. Key Findings

CEOs Get More than Uncle Sam

- Of last year's 100 highest-paid corporate chief executives in the United States, 25 took home more in CEO pay than their company paid in 2010 federal income taxes.
- These 25 CEOs averaged \$16.7 million, well above last year's \$10.8 million average for S&P 500 CEOs. Most of the companies they ran actually came out ahead at tax time, collecting tax refunds from the IRS that averaged \$304 million.
- CEOs in 22 of these 25 firms enjoyed pay increases in 2010. In 13 of these companies, CEO paychecks ratcheted up while the corporate income tax bill either declined or the size of the corporate tax refund expanded.

Low Taxes, High Profits

- The 25 firms that paid their CEOs more than Uncle Sam last year reported average global profits of \$1.9 billion. Only one of the firms reported negative global returns. Eighteen of the 25 firms last year operated subsidiaries in offshore tax haven jurisdictions. The firms, all combined, had 556 tax haven subsidiaries.
- Only seven of the 25 companies reported losses in U.S. pre-tax income. Five of these companies have a combined total of 267 subsidiaries in tax haven countries and a sixth, Nabors Industries, is headquartered in Bermuda.
- The most profitable of the 25 firms: General Electric. GE last year ranked 14th among U.S. firms in global profitability. GE received a \$3.3 billion tax refund, despite reporting a whopping \$5.1 billion in U.S. pre-tax income.

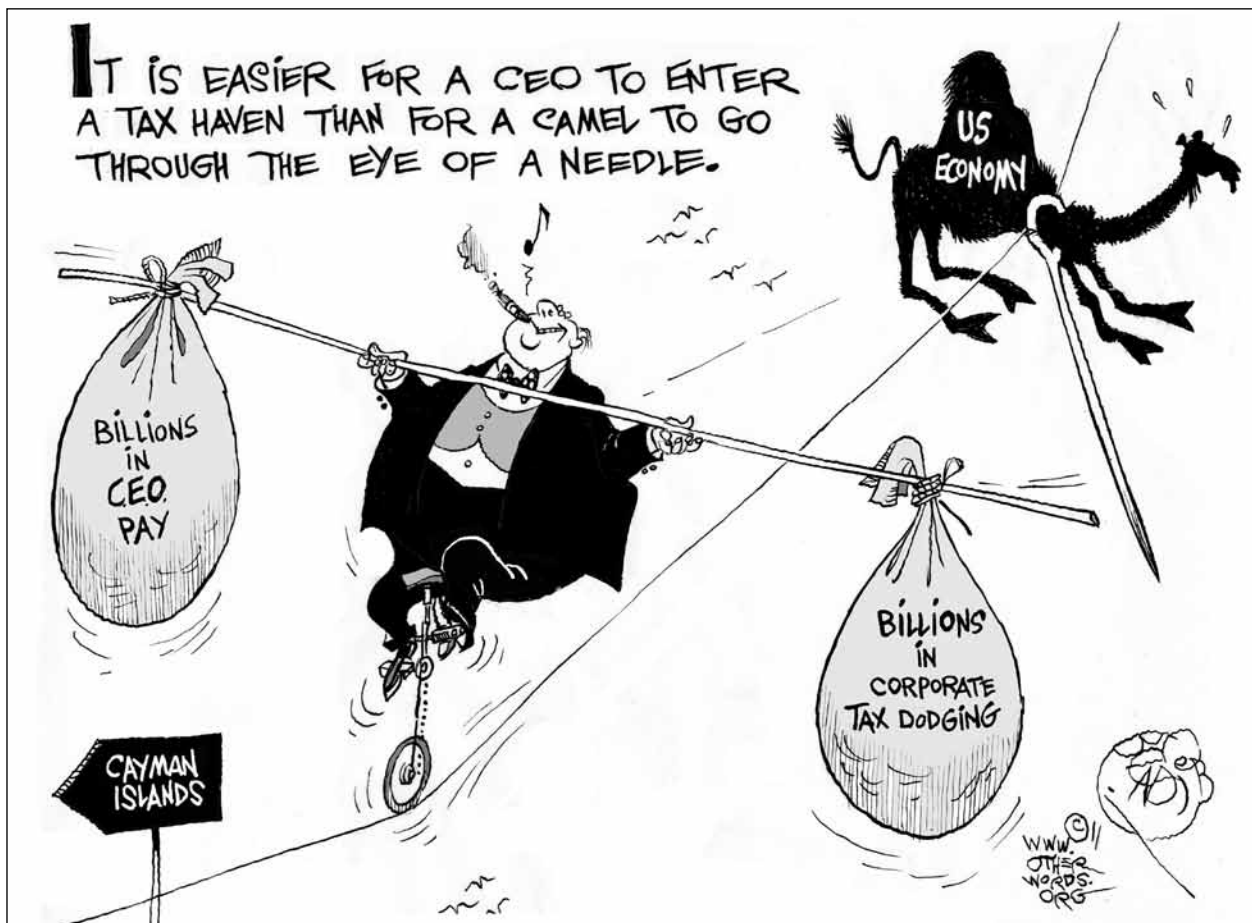
Bigger Checks for Influence-Peddling than to the IRS

- Of the 25 companies that paid their CEO more than Uncle Sam, 20 also spent more on lobbying lawmakers than they paid in corporate taxes. Eighteen gave more to the political campaigns of their favorite candidates than they paid to the IRS in taxes.
- The most profitable of the firms, General Electric, also ranked tops in lobbying and political campaign spending. The company's total investment in political influence: \$41.8 million. Boeing ranked

second, with \$20.8 million in lobbying and campaign spending, a total 60 percent over the company's tax payment.

Gap Between CEO and Worker Pay Jumps

- S&P 500 CEOs last year collected \$10.8 million in average compensation, a total that includes the value of new stock and options grants awarded during the year. This \$10.8 million represented a 27.8 percent compensation increase over 2009.
- The gap between CEO and average U.S. worker pay rose from 263-to-1 in 2009 to 325-to-1 last year.



II. Introduction: The Intersection Between Executive Excess and Tax Dodging

Guns don't kill people, the old saw goes. People do.

By the same token, corporations don't dodge taxes. People do. The people who run corporations. And these people — America's CEOs — are reaping awesomely lavish rewards for the tax dodging they have their corporations do.

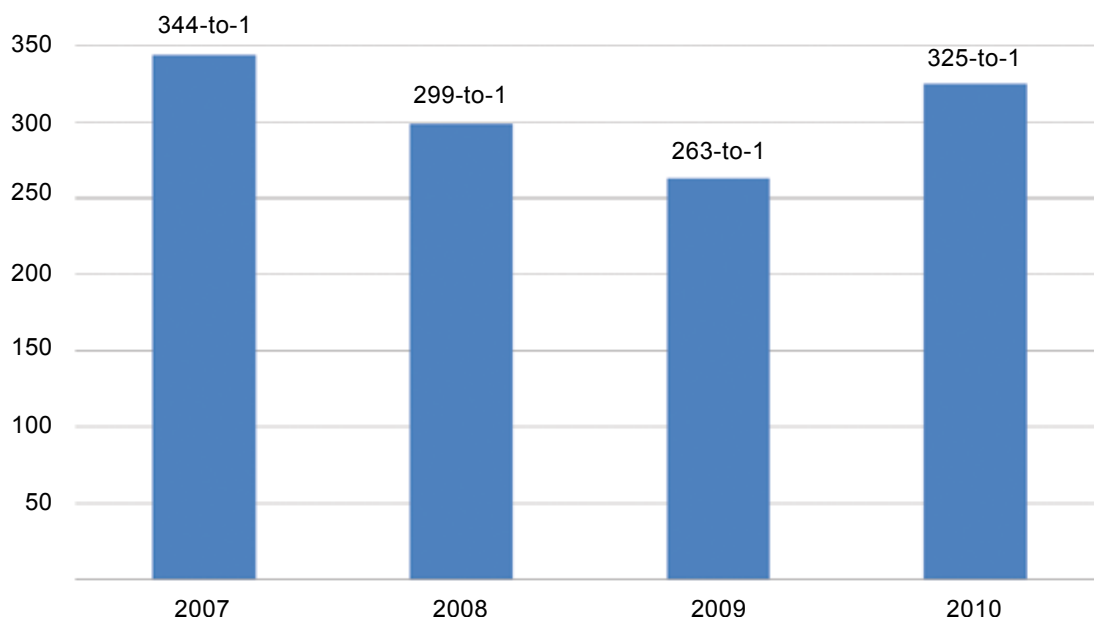
In fact, corporate tax dodging has gone so out of control that 25 major U.S. corporations last year paid their chief executives more than they paid Uncle Sam in federal income taxes.

This year's Institute for Policy Studies *Executive Excess* report, our 18th annual, explores the intersection between CEO pay and aggressive corporate tax dodging.

We researched the 100 U.S. corporations that shelled out the most last year in CEO compensation. At 25 of these corporate giants, we found, the bill for chief executive compensation actually ran higher than the company's entire federal corporate income tax bill.

Corporate outlays for CEO compensation — despite the lingering Great Recession — are rising. Employment levels have barely rebounded from their

CEO-Worker Pay Ratio



Sources: Associated Press S&P 500 compensation survey and U.S. Department of Labor.⁴

recessionary lows. Top executive pay levels, by contrast, have rebounded nearly all the way back from their pre-recession levels.

This contrast shows up starkly in the 2010 ratio between average worker and average CEO compensation. In 2009, we calculate, major corporate CEOs took home 263 times the pay of America's average workers. Last year, this gap leaped to 325-to-1.¹

Among the nation's top firms, the S&P 500, CEO pay last year averaged \$10,762,304, up 27.8 percent over 2009.² Average worker pay in 2010? That finished up at \$33,121, up just 3.3 percent over the year before.³

What are America's CEOs doing to deserve their latest bountiful rewards? We have no evidence that CEOs are fashioning, with their executive leadership, more effective and efficient enterprises. On the other hand, ample evidence suggests that CEOs and their corporations are expending considerably more energy on avoiding taxes than perhaps ever before — at a time when the federal government desperately needs more revenue to maintain basic services for the American people. This disinvestment also undermines the infrastructure and services that small and large businesses also depend upon.

Investigative journalists and tax research organizations have been documenting how U.S.-based global companies are aggressively shearing — and even totally eliminating — their federal income tax obligations. This past March, for instance, *The New York Times* traced the steps General Electric has taken to avoid U.S. corporate taxes for the last five years.⁵ Citizens for Tax

Justice, as part of a forthcoming study on tax avoidance among the Fortune 500, has identified 12 corporations that have paid an effective rate of negative 1.5 percent on \$171 billion in profits.⁶

How do corporations avoid taxes?

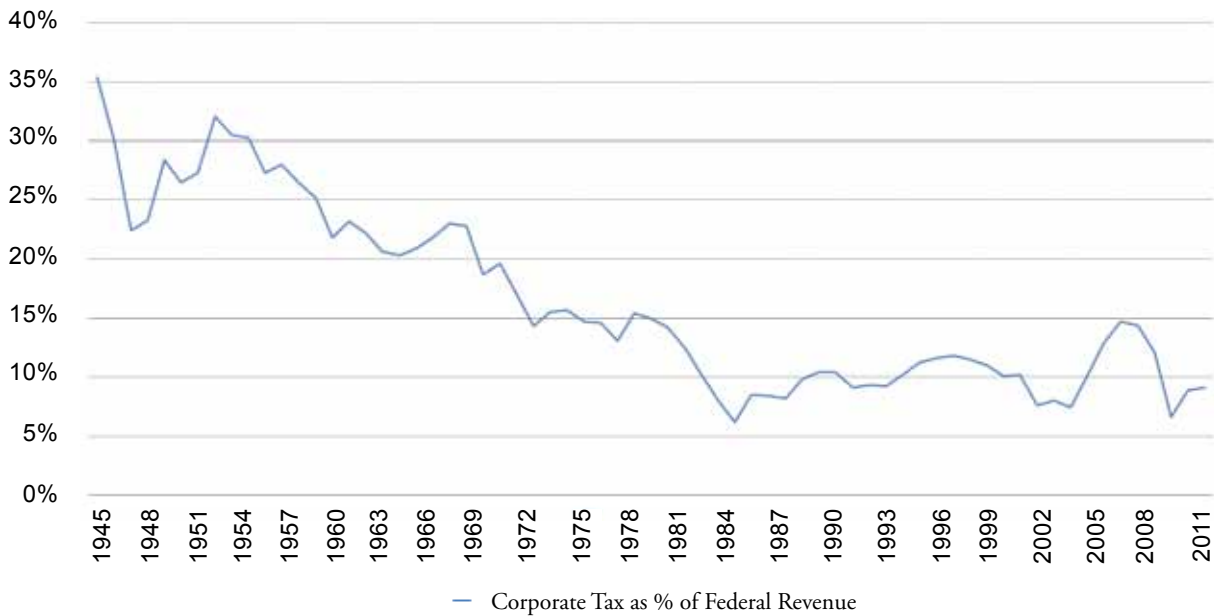
In our analysis of companies that last year paid their CEOs more than Uncle Sam, the companies' low tax bills — or large refunds — could not be explained by low profit rates. A large majority of the 25 companies on our list reported high profits in 2010. The low IRS bills these companies faced reflected tax avoidance pure and simple.

Our 25 hyperactive tax-dodging corporations employed a variety of avoidance techniques. Not all of these techniques are nefarious. Some corporate tax breaks can have redeeming social value. Incentives that encourage our economic transition to a green energy economy offer one example of these beneficial breaks. But such incentives as these play only a minor role. The lion's share of tax breaks reward corporate behaviors — from “offshoring” to accelerated depreciation — that are of questionable value to society, especially over the long term.

Ironically, and tellingly, corporations can even lower their tax bills by overcompensating their executives. The higher CEO paychecks soar, the more corporations can deduct off their taxes (see box on p. 7 for details).

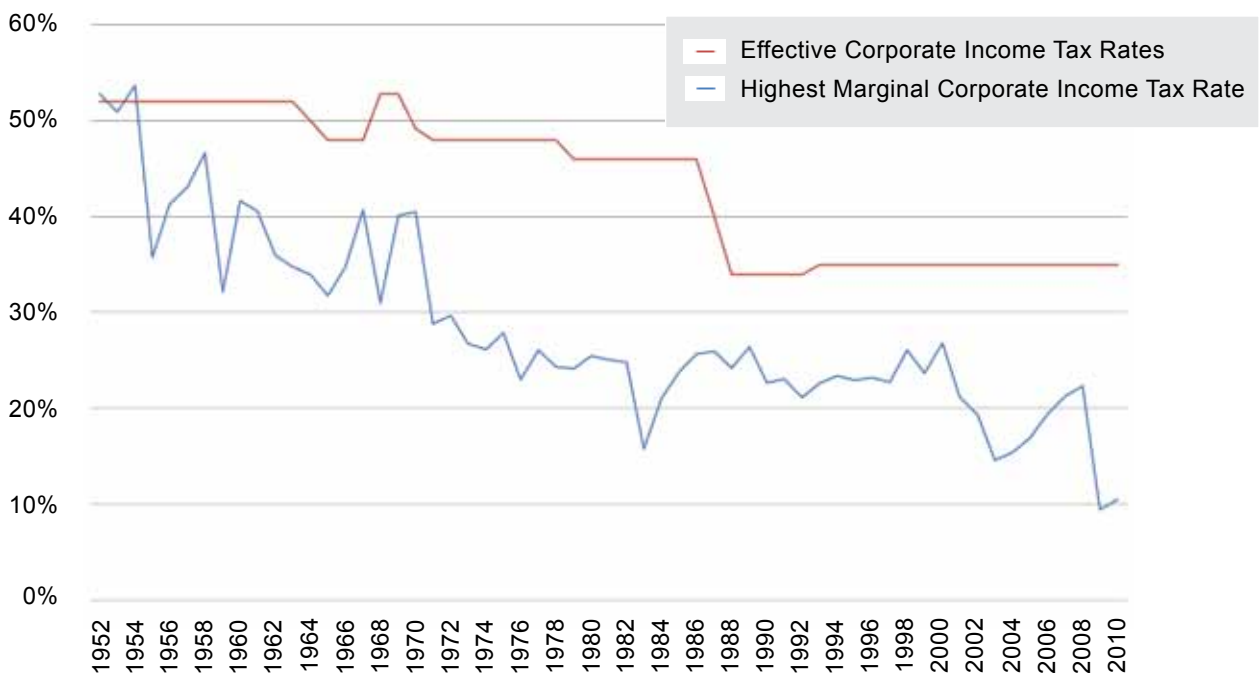
No tax-dodging strategy over recent years has filled U.S. corporate coffers more rapidly than the off-

Corporate Income Tax as % of Federal Revenue



Sources: The President's Budget for Fiscal 2012; Office of Management and Budget, Historical Table 2.1

Effective Corporate Tax Rates: Eisenhower to Obama 1952-2010



Sources: The President's Budget for Fiscal 2012; Office of Management and Budget, Historical Table 2.1 ; and Bureau of Economic Analysis, National Income and Products Accounts Table 1.12 (see details in Appendix 4)

shoring of corporate activity to tax havens in low- or no-tax jurisdictions. Eighteen of the 25 firms highlighted in this study operate subsidiaries in offshore tax haven jurisdictions. The firms, all combined, had 556 tax haven subsidiaries last year.⁷

Tax havens are costing the federal treasury, by one estimate, \$100 billion a year.⁸ These havens are speeding the transfer of wealth out of local communities and the global south into the bank accounts of the planet's wealthiest and most powerful.⁹ Tax havens, or more accurately "secrecy jurisdictions," can also facilitate criminal activity, from drug money laundering to the financing of terrorist networks.

How do tax havens work? One common corporate accounting technique, "transfer pricing," helps corporations shift profits offshore. Technology and drug companies regularly open shell companies — in tax havens — that hold their intellectual property rights. They then charge their U.S.-based operations inflated amounts for the use of these rights. These inflated costs get deducted off U.S. taxes. The overseas tax haven profits go un- or lightly taxed. Adding insult to injury, a coalition of corporate tax dodgers is now asking Congress to reward their tax avoidance with a deeply discounted five percent tax rate if they bring these funds back home where many of them started.¹⁰

This offshore tax gaming has spawned a massive global tax avoidance industry, with teams of lawyers and accountants who add nothing to market efficiency or product development. This "shadow" banking industry played a key role in the 2008 financial crisis. The "shadow" system's reckless financial maneuvering oper-

ated through layers of opaque offshore tax havens.

The two biggest bank recipients of U.S. taxpayer bailouts — Citigroup and Bank of America — both just happen to be tax haven-happy. Citigroup operates 427 subsidiaries in tax havens, the Bank of America 115.¹¹

Accounting games like "transfer pricing" have sent the corporate share of federal revenues plummeting. In 1945, U.S. corporate income taxes added up to 35 percent of all federal government revenue. This year, corporate income taxes will make up just 9 percent of federal receipts.¹² In 1952, the year Republican President Dwight Eisenhower was elected, the effective income tax rate for corporations was 52.8 percent. Last year it was just 10.5 percent.¹³

Proposals to rein in tax dodging and excessive pay

Tax-dodging corporations argue they are breaking no laws. They are just, the argument goes, operating "under the rules that Congress has established." They are indeed. But massive corporate outlays for lobbying and campaign contributions shape those rules. The 25 firms highlighted in this study spent a combined total of more than \$150 million on lobbying and campaign contributions last year (see Appendix 2).

All the companies highlighted in this report benefit enormously from their institutional presence in the United States. They utilize our taxpayer-funded infrastructure for transportation. They tap into government-sponsored research and subsidies for technologi-

cal innovation. They expect the U.S. law enforcement and judicial systems to protect their intellectual and physical property. And they rely on the U.S. military to defend their assets abroad.

U.S. corporations also benefit from the public education of their workforces. In fact, 16 of the 25 CEOs included in this study received at least a portion of their post-secondary education in taxpayer-supported public universities (see details in Appendix 3). Yet these same corporations remain content to let others pay the bills.

We have, in short, a corporate tax system today that works for top executives — and no one else.

In this year's edition of our Executive Pay Reform Scorecard, we highlight the many efforts underway to change the rules that are contributing to executive pay excess. These include efforts to rigorously implement the executive pay provisions in the Dodd-Frank financial reform law, as well as more far-reaching proposals that would use tax and procurement policies to discourage runaway pay.

How High CEO Pay Lowers Corporate Tax Bills

In annual shareholder financial reports, companies record an expense for the value of the stock options granted to executives at the time the options are granted. This book expense is calculated in accordance with accounting rules and is based on assumptions about when the options will be exercised and the stock's trading price on those future dates.

But companies do not take the deduction for executive stock options on their tax returns until their executives exercise the options, usually years later. The amount of compensation the executive receives on the exercise date is often substantially more than the book expense of the options that was originally estimated. Because the tax deduction is based on the trading price of the stock on the actual exercise date, the tax deduction is often much more than the book expense that was recorded by the companies. They do not write off the added option expense on the profit statement for shareholders. The result: earnings reported to shareholders end up overstated and taxes end up reduced.

Among the companies with the highest paid CEOs, EMC Corporation is one of the biggest recipients of excess tax benefits from stock-based compensation deductions. In its 2010 cash flow statement, EMC reported that it received \$281.9 million in excess tax benefits from stock-based compensation. These benefits lower both state and federal taxes. Citizens for Tax Justice, the pioneer in discerning the real taxes that corporations pay, estimates that EMC's windfall reduced its 2010 federal taxes by \$233 million (and state taxes by the remaining \$49 million).¹⁴ Thus while EMC reports in its tax footnote that it paid \$518.3 million in current federal income taxes, it really only paid the IRS \$285 million.

The Ending Excess Corporate Deductions for Stock Options Act (S. 1375), recently introduced in the U.S. Senate, would limit corporate tax deductions to the amount expensed for financial statement (book) purposes at the time of the option grant. Closing this loophole would add \$25 billion to federal tax revenues over 10 years.¹⁵

III. Companies that Pay Their CEO More than Uncle Sam – 10 Examples

No two corporations follow the same exact tax-dodging strategies. To give a sense of the breadth of corporate tax-avoiding creativity, we spotlight here a choice selection of the nation's most aggressive corporate tax avoiders.

International Paper Company *Turning a tax boondoggle into personal gold*



CEO compensation: \$12.3 million
U.S. federal income taxes: \$249 million refund

International Paper CEO John Faraci received a 75 percent pay hike in 2010. He pocketed \$12.3 million.

Faraci owes his good fortune, in large part, to a wood pulp byproduct called "black liquor." Paper mills have been using this byproduct as a fuel since the 1930s. But that didn't stop International Paper from lobbying in Washington to have "black liquor" earmarked for subsidies and federal tax refunds designed to spur the development of entirely new biofuels.¹⁶



That lobbying would be successful — for International Paper. How much has the company garnered from twisting the intent of the alternative fuel incentive? In 2009, this twisting handed the company a whopping \$1.7 billion in cash and cut the International Paper tax bill by another \$379 million. This windfall added up to nearly 9 percent of the firm's annual global revenue. Last year, International Paper reported still another net \$40 million tax benefit from the biofuel credit.¹⁷

International Paper's corporate board, naturally, cited the company's strong cash flow as a rationale for Faraci's generous compensation package.¹⁸



Bucksport - Champion International Paper Mill. Copyright: Roger Wollstadt



Prudential Financial

Reaping low-income housing tax refunds by investing in luxury hotels

CEO compensation: \$16.2 million
U.S. federal income taxes: \$722 million refund

Prudential CEO John Strangfeld has been well-rewarded for his firm's tax avoidance creativity. His company's most creative moment: The insurance and real estate giant has managed to pocket mega millions in tax refunds for its investments in luxury hotels, through an initiative intended to create jobs and better housing in low-income communities.



The program Prudential has exploited, the New Markets Tax Credit, has been around since 2003. Tax refunds available through the program only go to Census tracts with high poverty rates. But ace Prudential tax avoiders realized they could claim a project to renovate the ritzy Blackstone Hotel in downtown Chicago for the refund — because the Census tract surrounding the Blackstone hosts large numbers of students from nearby universities. These students, while hardly poor, technically qualify as low-income.

The Blackstone renovation generated \$15.6 million in tax refunds, much of which went to Prudential Financial and its partner in the project, JPMorgan Chase. Prudential pocketed another \$27.3 million refund for another luxury hotel in Portland, Oregon.¹⁹ The company reported a total IRS refund of \$58 million in 2010 for investments in low-income housing and other tax-creditable activity.²⁰

General Electric

A competitiveness model based on aggressive tax-dodging and offshoring



CEO compensation: \$15.2 million
U.S. federal income taxes: \$3.3 billion refund



If there were an Olympics for tax dodging, General Electric would sweep the gold. Last year alone, the firm reaped \$3.3 billion in federal income tax refunds, despite more than \$5 billion in U.S. profits.

A New York Times expose has credited GE's "extraordinary success" in lowering its tax bill to "an aggressive strategy that mixes fierce lobbying for tax breaks and innovative accounting that enables it to concentrate its profits offshore."²¹ The most lucrative of GE's tax breaks, according to the newspaper, allow the firm to operate a vast leasing and lending business in foreign low-tax jurisdictions. The company pays no U.S. taxes on these profits as long as the money remains overseas.

The company's 14 tax haven subsidiaries, including three in Bermuda and four each in Singapore and Luxembourg, helped General Electric's unrepatriated profits grow to \$94 billion in 2010, up from \$84 billion in 2009.²²

GE, the most profitable firm on our list of companies that paid their CEOs more last year than Uncle Sam, ranked 14th nationwide in 2010 profitability, with \$11.6 billion in net earnings. The company also ranks first on our list for lobbying and political campaign spending. The company's total investment in political influence last year: \$41.8 million.

President Obama rankled many last year when he appointed GE CEO Jeff Immelt as the chairman of his Council on Jobs and Competitiveness. Since 2008, the company has shut down 31 plants in the United States and reduced its U.S. workforce by 19,000 over the last two years.²³

Verizon

*Phone customers paid more to Uncle Sam
than the telecom giant*



CEO compensation: \$18.1 million

U.S. federal income taxes: \$705 million refund



Verizon received a massive tax refund last year – despite earning \$11.9 billion in pre-tax U.S. profits – the highest among the 25 firms highlighted in this report.

Quite a feat for then Verizon CEO Ivan Seidenberg.²⁴ In effect, every Verizon phone customer paid more in federal telephone excise taxes than Verizon paid in federal income taxes.

Verizon also has a heavy political presence in Washington. Last year alone, the telecom giant spent \$16.7 million on lobbying — and deducted these outlays off its taxes.²⁵

Despite its hefty profits, Verizon last year announced 13,000 job cuts, the year's third-highest corporate layoff total.²⁶



Bank of New York Mellon

Bailout baron accused of bilking public pension funds

CEO compensation: \$19.4 million

U.S. federal income taxes: \$670 million refund

Bank of New York Mellon CEO Robert Kelly took home \$19.4 million in 2010. The bank, the same year, claimed a \$670 million federal tax refund, despite \$2.4 billion in U.S. pre-tax income.

Kelly's compensation has skated above \$10 million during each of the past three years of financial crisis. The CEO artfully managed to avoid the salary limits President Obama's "pay czar" imposed on bailed-out banks by making sure Bank of New York Mellon repaid the taxpayer funds before those restrictions went into effect.²⁷ The bank raised the money to pay back its \$3 billion in TARP assistance by taking on uninsured debt, slashing dividends, and issuing new stock.²⁸



The Bank of New York Mellon, with 10 subsidiaries in tax havens, did not pay a dime in federal taxes in 2010. However, the banking giant did devote \$1.4 million to lobbying over the year. The bank's lobbyists worked diligently to exempt currency trading from new transparency and oversight rules.²⁹ In related news, officials from eight U.S. states are conducting inquiries or pursuing litigation against Bank of New York Mellon for ripping off state pension funds by overcharging for currency trades. The Securities and Exchange Commission and Justice Department are also investigating the allegations.³⁰

BOEING® *contracts boost pay and profits, not taxes*

CEO compensation: \$13.8 million
U.S. federal income taxes: \$13 million

Boeing annually takes in tens of billions of taxpayer dollars in federal government contracts. In 2010, Boeing U.S. pre-tax income spiked 163 percent, to \$4.3 billion. An ample reward for that showing went to Boeing CEO Jim McNerney, whose \$13.8 million paycheck topped by 6 percent what the company paid Uncle Sam in federal income taxes.



Boeing has consistently ranked high among the large companies that pay the least in taxes.³¹ The U.S. government's over-the-top tax-time generosity with Boeing has even generated international sanctions. This past March, the World Trade Organization called on the Obama administration to withdraw \$2.7 billion in tax incentives, research and development support, and other assistance to Boeing. This largesse, the WTO charged, violates global rules against unfair market-distorting subsidies.³²

Boeing also aggressively seeks out state and local tax breaks. The company last year pocketed a net tax refund of \$137 million from states and localities.³³

Boeing's most recent move to cash in on taxpayer subsidies has created a firestorm of protest. The company opted to build an aircraft factory in South Carolina in exchange for subsidies and tax breaks that could cost taxpayers over \$900 million.³⁴ The National Labor Relations Board is charging that the move illegally punishes workers in Washington State for the exercise of their union rights.³⁵

Marsh & McLennan *Insurance giant has 25 Bermuda subsidiaries*



CEO compensation: \$14 million
U.S. federal income taxes: \$90 million refund



Marsh & McLennan has lowered its IRS bill by registering 105 subsidiaries in 20 countries considered tax havens.³⁶ A full 25 of these are registered in Bermuda, a tax-free zone so popular among insurance companies that some have taken to labeling it "the world's risk capital."³⁷

Bermuda levies no corporate income tax. Registering in Bermuda can also help insurance companies avoid pesky insurance regulations.³⁸

Though Marsh & McLennan reports that more than 40 percent of its gross revenues come from the United States and more than 60 percent of its assets are in this country, the company has reported losses in its U.S. operations for each of the last three years.³⁹ Successful shifting of its profits to Bermuda and other offshore locations has allowed the company to report strong global profits while avoiding paying any U.S. federal corporate income taxes since 2004.⁴⁰

Marsh & McLennan has dedicated itself to the generous care and feeding of all CEOs, not just its own. The company offers insurance policies that protect executives who drive their firms into bankruptcy or wink at bribery.⁴¹ Another insurance policy the company offers shields execs from proposed FDIC rules that empower the agency to "claw back" up to two years of a financial executive's salary if that executive is found responsible for a bank failure.⁴²

Stanley Black & Decker *Big bonus for job-destroying merger*

StanleyBlack&Decker

CEO compensation: \$32.6 million
U.S. federal income taxes: \$75 million refund⁴³



No company that paid its CEO more than Uncle Sam last year awarded its chief executive with a larger paycheck than Stanley Black & Decker. CEO John Lundgren last year enjoyed a 253 percent pay increase, to \$32.6 million. His compensation included more than \$25 million in stock awards, part of a special incentive package designed to “help ensure the success of the merger” between Stanley Works and Black & Decker in March 2010.⁴⁴

This munificent payout did not go over well with shareholders. Sixty-one percent opposed company executive pay practices at the company’s most recent annual meeting. Some long-term investors in Stanley Black & Decker are now organizing an investigation of “possible breaches of fiduciary duties related to potential excessive compensation.”⁴⁵

Meanwhile, the merger that created the world’s largest hand and power tool maker is expected to result in 4,000 layoffs.⁴⁶ One Stanley Black & Decker subsidiary, Baldwin Hardware, is cutting workers in Pennsylvania and transferring manufacturing to Mexico.⁴⁷ The number of Stanley Black & Decker subsidiaries in tax havens has been expanding about as rapidly as the company’s U.S. workforce has been shrinking. Last year the merged company had 50 such subsidiaries, up from 34 for the individual companies five years ago (Stanley Works had 9, Black & Decker 25).⁴⁸



Chesapeake Energy *Tax breaks subsidize billionaire CEO’s absurd pay packages*

CEO compensation: \$21 million
U.S. federal income taxes: \$0

Chesapeake Energy paid nothing in federal taxes in 2010, despite \$2.8 billion in U.S. pre-tax profits.⁴⁹ The company, the second-largest U.S. producer of natural gas, has historically been the recipient of massive tax breaks designed to bolster domestic energy production. Businessweek calculates that Chesapeake paid an average tax rate of 0.3 percent from 2002 to 2006.⁵⁰

These tax breaks have helped subsidize outrageous pay deals for CEO Aubrey McClendon, the 332nd richest American, with a net worth of \$1.2 billion.⁵¹



In 2008, after a 40 percent decline in share price, the Chesapeake board handed McClendon a \$75 million bonus, plus an assortment of other interesting perks. Among these perks: The company forked over \$4.6 million to sponsor the NBA Oklahoma City Thunder, a pro basketball team that has McClendon as a co-owner, and bought McClendon’s antique map collection for \$12 million.⁵²

McClendon is currently spearheading a campaign to obtain tax credits to encourage use of natural gas as a transportation fuel.⁵³ Environmentalists fear the legislation could also give a boost to the controversial practice of fracking, or drilling into rock to release natural gas. The sponsor of this bill, Rep. John Sullivan (R-Oklahoma), received \$10,000 from Chesapeake’s Political Action Committee and an additional \$4,800 from McClendon for his 2010 Congressional campaign, the largest contribution of any company to the congressman’s campaign that year.⁵⁴



eBay *Online retail giant makes creative use of tax havens*

CEO compensation: \$12.4 million
U.S. federal income taxes: \$131 million refund

Tax avoidance has always been a key motivator behind the development of e-commerce. So it's hardly a surprise that eBay, the world's largest online marketplace, also turns out to be a major tax dodger. Last year the firm received a \$131 million tax refund, despite U.S. pre-tax profits of \$848 million.

As purely an online service provider, eBay has little reason to be rooted in any particular community or country. eBay has 31 subsidiaries in 9 tax haven countries. The company boasts in its 10-K report about recent rulings in Singapore and Switzerland that further lowered its tax rate in those countries, resulting in tax savings of \$284 million and \$300 million in 2010 and 2009, respectively.⁵⁵



CEO John Donahoe, who took over from former chief Meg Whitman in 2008, has been fighting taxes at various levels. Over the past year, he has been speaking out against efforts to apply sales taxes to all Internet sales, calling them "small business job killers."⁵⁶ Online retailers such as eBay, under current law, need only collect sales taxes on purchases from customers in states where they have a significant physical presence, such as a store or warehouse. Consequently, the rise of ecommerce has contributed to federal and state deficit woes.

Rule Changes to Inhibit Corporate Tax Dodging

The corporate tax dodging discussed in this report breaks no laws. Closing corporate tax loopholes, as a result, will mean changing current tax laws. Two important pieces of legislation recently introduced in Congress would do just that:

The Stop Tax Havens Abuse Act (S. 1346 introduced by Senator Carl Levin and H.R. 2669 introduced by Rep. Lloyd Doggett) would close numerous loopholes that facilitate tax dodging through abuse of tax havens. This bill would treat foreign subsidiaries of U.S. corporations whose management and control occur primarily in the United States as U.S. domestic corporations for income tax purposes. Passing this Act would reduce the incentive to shift profits and jobs overseas and could raise an additional \$100 billion in tax revenue each year, without raising corporate tax rates.⁵⁷

The Ending Excessive Corporate Deductions for Stock Options Act (S. 1375 introduced by Senator Carl Levin) would mandate that corporations take the same deduction for stock-based executive compensation on their tax returns as they do in shareholder financial reports. This would mean that corporations would deduct the value of stock options at the time the grant is made. Currently, corporations deduct the often inflated value of stock-based compensation at the time the grant is exercised. This time disparity means that corporations annually deduct up to \$60 billion in option related costs that have not been expensed on shareholder books. Closing this loophole would raise at least \$25 billion over ten years.⁵⁸

IV. Executive Pay Reform Scorecard

You don't have to be a worker to find contemporary CEO pay fatally flawed. You can even be a global business guru — like Roger Martin, the dean of the University of Toronto business school.

Martin, the author of a new book blasting Corporate America's "profit maximization" at all costs, charges that current excessive compensation rewards give chief executives a mighty incentive "to game the system."⁵⁹ In this toxic gaming environment, "customers become marks to be exploited, employees become disposable cogs," and shareholders see their share values stumble.

In the United States and throughout the globalized world, public interest groups and lawmakers are working, on a variety of fronts, to end this gaming. Some of their reform proposals have recently been enacted into law. Others are still pending — or awaiting the introduction of legislation or regulation.

In our new Executive Pay Reform Scorecard, we have categorized recent reform initiatives into five goal areas and specified their current status. We've also rated each proposal on its potential impact in the overall struggle against excessive executive pay.

Executive Pay: Principles for Economic Fairness and Stability

1. Encourage narrower CEO-worker pay gaps

Extreme pay gaps — situations where top executives regularly take home hundreds of times more in compensation than average employees — run counter to basic principles of fairness. These gaps also endanger enterprise effectiveness. Management guru Peter Drucker, echoing the view of Gilded Age financier J.P. Morgan, believed that the ratio of pay between worker and executive can run no higher than 20-to-1 without damaging company morale and productivity.⁶⁰ Researchers have documented that Information Age enterprises operate more effectively when they tap into — and reward — the creative contributions of employees at all levels.⁶¹

2. Eliminate taxpayer subsidies for excessive executive pay

Ordinary taxpayers should not have to foot the bill for excessive executive compensation. And yet they do — through a variety of tax and accounting loopholes that encourage executive pay excess. These perverse incentives add up to more than \$20 billion per year in foregone revenue.⁶² One example: No meaningful regulations currently limit how much companies can deduct from their taxes for the expense of executive compensa-

tion. The more firms pay their CEO, the more they can deduct off their federal taxes.

3. Encourage reasonable limits on total compensation

The greater the annual reward an executive can receive, the greater the temptation to make reckless executive decisions that generate short-term earnings at the expense of long-term corporate health. Outsized CEO paychecks have also become a major drain on corporate revenues, amounting, in one recent period, to nearly 10 percent of total corporate earnings.⁶³ Government can encourage more reasonable compensation levels without having to micromanage pay levels at individual firms.

4. Accountability to shareholders

On paper, the corporate boards that determine executive pay levels must answer to shareholders. In practice, shareholders have had virtually no say on corporate executive pay decisions. Recent reforms have made some progress towards forcing corporate boards to defend before shareholders the rewards they extend to corporate officials.

5. Accountability to broader stakeholders

Executive pay practices, we have learned from the run-up to the 2008 financial crisis, impact far more than shareholders. Effective pay reforms need to encourage management decisions that take into account the interests of all corporate stakeholders, not just shareholders but consumers and employees and the communities where corporations operate.

In the following tables, we grade each reform by assigning a rating for each of these five principles.

Passed / proposals recently enacted through statute or regulation								
Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Disclosure								
Ceo-worker pay ratio	The Dodd-Frank financial reform law (Sec. 953) requires all U.S. corporations to compute and report the median annual total compensation of their employees, excluding the CEO, and reveal the ratio between CEO and employee pay. The provision has sparked an intense backlash from corporate lobby groups, as well as a bill to repeal the disclosure requirement altogether (HR 1062). The SEC plans to adopt rules on pay ratio disclosure by the end of 2011. ⁶⁴	Under Dodd-Frank, for the first time ever, major U.S. firms will have to reveal how much they value the contributions of all employees, not just top executives. Enterprises operate more effectively when they tap the creativity of all who labor within them. This provision could boost efforts (see Pending) to limit pay excess via tax and procurement policies that leverage the public purse.	2		1	1	2	6
Pay versus performance	The Dodd-Frank financial reform law (Sec. 953) requires all U.S. corporations to disclose the relationship between executive pay and corporate financial performance, including changes in share prices over the previous year. The SEC plans to adopt rules regarding disclosure of pay-for-performance by the end of 2011.	This disclosure requirement reinforces the excessive fixation on short-term, narrowly defined performance criteria and does little to advance long-term investor interests.				1		1
Employee and director hedging	The Dodd-Frank financial reform law (Sec. 955) requires firms to disclose whether they have a policy on hedging by employees or directors. The SEC plans to adopt rules regarding disclosure of hedging by employees and directors by the end of 2011.	Top executives use hedging contracts to bet against their own firm's success. By so hedging their bets, they win whatever the ultimate cost to company and community. But merely requiring disclosure may not end this practice.				1	1	2

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Government contractor pay	Rules stemming from the 2008 Government Funding Transparency Act require government contractors and subcontractors to annually disclose the names and total pay, including bonus and stock options, of their five top-paid officers. The rule applies to firms earning at least 80 percent of their revenue from federal contracts, grants, and loans that have received \$25 million in fed funding the previous year. ⁶⁵	This recent reform expands executive pay reporting requirements that already apply to publicly held companies to privately held firms that rely heavily on federal contracts. By helping taxpayers see how much of their money is going into the pockets of contractor executives, this mandate could speed procurement reforms that encourage more reasonable pay (see Pending).		2	1		1	4
Governance								
Shareholder "Say on Pay"	The Dodd-Frank financial reform law (Sec. 951) requires firms to provide shareholders the right to a nonbinding vote on the compensation of executives. Dodd-Frank also requires an advisory vote regarding compensation arrangements ("golden parachutes") that are triggered by a merger or acquisition. These new rules went into effect for large firms in January 2011. ⁶⁶	As of June 23, 2011, shareholder majorities had voted against pay plans at 36 companies. Union-led "vote no" campaigns resulted in significant levels of opposition at four additional firms. ⁶⁷ In some cases, companies have altered their pay practices to ward off "say on pay" nay votes. Disney, for instance, eliminated executive tax "gross-ups" right before its annual meeting. But "say on pay," while encouraging some companies to eliminate egregious abuses, has not resulted in lower total executive pay, either so far in the United States or in the UK and other nations where "say in pay" has been on the books for most of the last decade.	1		1	2		4

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Proxy access	The Dodd-Frank financial reform (Sec. 972) gives the SEC the authority to adopt rules allowing shareholders to place candidates on the ballots for board of director elections. Last October, the SEC postponed the implementation of these rules after the Business Roundtable and the U.S. Chamber of Commerce filed a legal challenge. ⁶⁸	If these rules are implemented, institutional investors will have a greater capacity to challenge incumbents and incumbents may become more attentive to broader perspectives on executive compensation.	1		1	2		4
Compensation committee independence	The Dodd-Frank financial reform law (Sec. 952) requires all board compensation committee members to be "independent." Companies must also disclose whether a pay committee has obtained the advice of a pay consultant and whether the consultant's work raises any conflict of interest. The SEC plans to adopt standards by the end of 2011.	The significance of this reform will depend to a great extent on the definition of "independent." NYSE and NASDAQ already require listed companies to have an "independent" director pay committee majority. "Independent" members cannot be employed by or have a business relationship with the firm. CEOs still retain the power to hand-pick directors. Once selected, few want to risk losing their slots by questioning excessive executive pay. Case in point: Enron's board members rated as largely independent, among them the dean of the Stanford Business School.			1	1		2
Independence of compensation consultants	The Dodd-Frank financial reform (Sec. 952) directs the SEC to identify criteria for determining the independence of advisers to compensation committees. These criteria will cover whether the advisers do other business with the firm, own stock in it, or have business or personal relationships with board members, as well as note what percentage of a consultant's business comes from the firm. The SEC plans to adopt rules by the end of 2011 and also plans to report to Congress on compensation consultant impact by the end of 2012.	Cracking down on consultant conflicts of interest would be a positive step. Currently, these paid advisers have an incentive to produce reports that recommend high levels of executive compensation, since if they keep in an executive's good graces, that executive will be more likely to extend the consultant's contracts in areas unrelated to executive pay.			1	2		3

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Tax Policy								
Cap on deductibility of health insurance executive pay	Since 1993, all U.S. companies have been subject to a \$1 million cap on the tax deductibility of executive pay, but this cap comes with a giant loophole that exempts “performance-based” pay. The 2010 health reform law eliminates this loophole — in the health insurance industry — and lowers the cap to \$500,000 starting in 2013. ⁶⁹ A similar rule for TARP recipients applied only to top executives. This provision covers all firm employees.	This rule, while applying only to health insurance companies, does set a valuable precedent for reducing taxpayer subsidies for excessive executive pay and provides an incentive for lowering overall CEO compensation. This provision could give impetus to proposals noted below to cap the tax deductibility of executive pay at all U.S. firms.	1	3	1			5
Other								
Clawbacks	The Dodd-Frank financial reform law (Sec. 954) requires executives to repay compensation gained as a result of erroneous data in financial statements. Executives must repay “excess” incentive compensation received during the three-year period preceding an accounting restatement. The SEC plans to adopt rules regarding recovery of executive compensation by the end of 2011.	This important step toward ensuring that executives do not get to keep pay based on performance goals not actually achieved goes beyond the claw-back provisions of the Sarbanes-Oxley law, which only applies to restatements resulting from misconduct. But the rule applies only to top execs, leaving high-bonus traders off the hook.			1	2	1	4

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Pay limits for financial holding company executives	The Dodd-Frank financial reform law (Sec. 956) directs the Fed and other agencies to develop standards, for bank holding companies and savings and loans, that prohibit payment to any “executive officer, employee, director, or principal shareholder” of “excessive compensation, fees, or benefits” as well as pay that “could lead to material financial loss to the bank holding company.” A final rule is expected by June 2012.	The jury remains out on this provision’s significance. Some recommendations submitted to regulators, if adopted, would appreciably increase the impact of the rule. The AFL-CIO, for instance, recommended that stock options be prohibited as a form of compensation, arguing that they can encourage excessive risk-taking and short-termism. ⁷⁰ Americans for Financial Reform recommended that the proposed requirement to defer 50 percent of bonuses for three years be extended to at least five years. ⁷¹					?	
Federal Reserve guidance on incentive compensation	In June 2010, the Fed released its guidelines on financial firm incentive pay. Unlike the European Union (see below), the Fed chose not to require firms to impose standard formulas for bonus payouts or to set compliance deadlines. Instead, the Fed offers general principles to encourage longer-term performance and avoid undue risks for the firm or financial system.	Given the vagueness of the guidelines and the confidentiality of the Federal Reserve’s reviews of company compliance, evaluating the impact of this guidance on actual pay practices will be next to impossible.						

Pending / proposals currently before Congress

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Tax and Procurement Policy								
Ending the preferential capital gains treatment of carried interest	Under current law, hedge and private equity fund managers pay taxes at a 15 percent capital gains rate on the profit share — "carried interest" — they get paid to manage investment funds, rather than the 35 percent rate they would pay under normal tax schedules. In 2007, the House passed a tax reform bill, H.R. 3996, to close the carried interest loophole by defining "carried interest" as ordinary income. The Senate did not take action. In 2010, several attempts to close the loop-hole failed. A fix is included in President Obama's proposed budget for FY2012. ⁷²	Closing the carried interest loophole would address the single most extreme example of Wall Street privilege.	1	3	1			5
Limiting the deductibility of executive compensation	To prevent corporations from deducting excessive executive pay off their taxes, Congress in 1993 set a \$1 million cap on the individual executive pay corporations could deduct. But that cap did not apply to "performance-based" pay, a giant loophole that exempted stock options and other pay "incentives" from the \$1 million cap. In 2011, Rep. Barbara Lee (D-Calif.) introduced the Income Equity Act (H.R. 382) to deny all firms tax deductions on any executive pay that runs over 25 times the pay of a firm's lowest-paid employee or \$500,000, whichever is higher.	The Income Equity Act would eliminate a perverse incentive for excessive compensation. Under current rules, the more a firm pays its CEO, the more the firm can deduct from its taxes. Other taxpayers bear the brunt of this loophole, either through the increased taxes needed to fill the revenue gaps or through cutbacks in public spending. As noted above, the TARP and the 2010 health care reform bill set important precedents by applying \$500,000 deductibility caps on pay for bailout recipients and health insurance firms.	2	3	2			7

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Ending the stock option accounting double standard	Current accounting rules value stock options on their grant date. The current tax code values stock options on the day that executives cash them in, often a much higher figure. In July 2011, Senators Carl Levin (D-Mich.) and Sherrod Brown (D-Ohio) introduced the Ending Excessive Corporate Deductions for Stock Options Act (S. 1375) to require the corporate tax deduction for stock option compensation to be not greater than the stock option book expense shown on a corporation's financial statement.	Under current rules, companies can lower their tax bill by claiming deductions for options that are much higher than the option value they report in their financial statements. This tax incentive encourages corporate boards to hand executives huge stock option windfalls and save taxpayer money. The Joint Committee on Taxation has estimated that ending this tax break would raise \$24.6 billion in corporate tax revenues over ten years. ⁷³	1	3	1			5
Bonus taxes	In January 2010, Rep. Dennis Kucinich (D-Ohio) introduced the Responsible Banking Act (H.R. 4414), a measure that would impose a 75 percent tax on bonuses to employees of all financial firms for the next five years. Several other bonus tax bills, also introduced in the last Congress, would have applied only to firms that received TARP benefits.	Continued bonus payouts, even by taxpayer-dependent firms such as AIG, have provoked intense public anger. A continuation of the "bonus culture" puts all of us at risk of more reckless behavior. The UK responded to this furor by imposing a one-time tax of 50 percent on any 2009 discretionary pay for bankers above a specific level, about US\$40,000.	2		2		1	5

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Limiting deferred compensation	Most CEOs at large companies now legally shield unlimited amounts of compensation from taxes through special deferred accounts set up by their employers. By contrast, ordinary taxpayers face strict limits on how much income they can defer from taxes via 401(k) plans. In 2007 the Senate passed a minimum wage bill that would have limited annual executive pay deferrals to \$1 million, but the provision was dropped in conference committee. ⁷⁴	These special deferred compensation plans cost U.S. taxpayers an estimated \$80.6 million per year in lost revenue. Beyond that, these plans widen the divide between CEOs and ordinary workers, whose pension benefits have declined significantly at most firms. ⁷⁵	2	1	1			4
Leveraging federal procurement dollars to discourage excessive executive compensation	Firms that rely heavily on government subsidies, contracts, and other forms of support continue to face no meaningful restraints on pay. Every year, the Office of Management and Budget does establish a maximum benchmark for contractor compensation, currently \$693,951. But this benchmark only limits the executive pay a company can directly bill the government for reimbursement. The benchmark in no way curbs windfalls that contracts generate for top executives. Rep. Jan Schakowsky (D-Ill.) has introduced the Patriot Corporations Act (H.R. 1163) to extend tax breaks and federal contracting preferences to companies that meet good behavior benchmarks that include not compensating any executive at more than 100 times the income of the company's lowest-paid worker.	By law, the U.S. government denies contracts to companies that discriminate, in their employment practices, by race or gender. This reflects clear public policy that our tax dollars should not subsidize racial or gender inequality. In a similar way, this reform would tap the power of the public purse to discourage extreme economic inequality.	2	3	2		3	10

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Progressive taxation	Executive pay can be affected indirectly through tax reforms that tax income in top tax brackets at high rates. A number of proposals before Congress seek to place more steeply graduated rates in effect. Among these proposals to ensure that the ultra rich pay their fair share: the Fairness in Taxation Act (HR 1124), legislation that would create additional tax brackets for higher incomes, and the Responsible Estate Tax Act, (S.3533), a move to levy a more progressive tax on large fortunes.	In the quarter-century after World War II, with tax rates in effect that took a substantial bite out of income in the highest tax brackets, corporate boards simply did not compensate executives at lush levels — because the bulk of that excessive pay would simply be taxed away. Steeply graduated progressive taxation can serve as a significant disincentive for excessive executive compensation. Some CEOs themselves have argued that policy makers should not alter the compensation system, but just tax incomes at higher levels. ⁷⁶	1	3	1			5

Promising / not yet before Congress

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Bonus deferral	In January 2011, the European Union instituted new pay rules for financial firms. Under these rules, executives will receive only 20 to 30 percent of their bonus in upfront cash. The rest will be deferred for up to three years and be paid in “contingent capital,” a new class of security that would decline in value as a bank's financial performance deteriorates. If European Union regulators decide a bank's pay structure encourages excessive risk, they can force the bank to set aside more capital to offset that risk. ⁷⁷ On May 19, 2011, the European Commission charged that 10 countries had failed to fully implement the measures. ⁷⁸ Seven federal agencies in the United States, under Dodd-Frank, have proposed a rule mandating that at least 50 percent of incentive-based pay at large financial institutions must be deferred for at least three years.	The financial crisis starkly revealed the folly of rewarding executives for short-term financial performance without taking into account whether that performance's sustainability. But the EU's three-year deferral, if in place in the United States, would not have prevented some of the biggest pay scandals that led to the Wall Street meltdown. The AFL-CIO, to strengthen the intent of this reform approach in the United States, has proposed five years, or until retirement, as the deferral time span. ⁷⁹ An AFSCME proposal suggests either two years past the termination of an executive's employment or a five-year “lockup period” that would begin at vesting and lapse gradually, enabling executives to redeem or sell only one-fifth of their shares after each of the five years. ⁸⁰ Delaying rewards can certainly damp down incentives for reckless executive behavior. But the most effective overall reform approach will look at both the structure of compensation rewards and their overall size.			1	3	1	5

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Dutch bonus pay limits	In 2010, the Netherlands Bankers Association adopted a code of conduct, drafted with the finance ministry, that restricts the amount of “variable” pay that executives can collect to no more than their annual salary. This “variable” pay encompasses all executive pay incentives, not just bonuses but options and other stock awards. ⁸¹ Some Dutch banks have resisted full compliance. ING’s CEO agreed to give up his bonus only after Dutch customers, by the thousands, threatened to withdraw deposits. ⁸²	This reform does not set a dollar limit on pay, but will likely go much further than many other reforms to bring down CEO pay levels by limiting total compensation to no more than twice the amount of executive salary. This approach also helps counter the “bonus culture” that encourages high-risk investing.	3		3	2	2	10
‘Skin in the game’ mandate	All new top corporate executives, under a proposal from veteran investment adviser Vincent Panvini, would be required to place a significant share of their own financial assets in escrow for five or ten years. If a CEO’s company lost value over that time, the CEO would forfeit money from that escrow. ⁸³	Small business entrepreneurs seldom behave recklessly because they typically have their own personal wealth tied up in their business. This proposal aims to give corporate executives a similar incentive for responsible behavior.				3	3	6
Strict caps on executive compensation for bailout firms — before the next crisis	In 2009, the Senate approved an amendment to the stimulus bill that would have capped total pay for all employees of all bailout companies at no more than \$400,000, the salary of the U.S. President. Such a restriction could be enacted today for application in the event of future bailouts.	This restriction could have an important preventive effect. Given a clear warning about the consequences for their own paychecks, executives might think twice about taking actions that endanger their future — and ours.	3	3	3	3	3	15

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
A CEO pay limit for firms in bankruptcy	The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (Sec. 331) prohibits companies in bankruptcy from giving executives any “retention” bonus or severance pay that runs over ten times the average bonus or severance awarded to regular employees in the previous year. This legislation could be strengthened by closing a loophole that exempts “performance-based pay.”	This reform would help end the unjust practice whereby executives, after declaring bankruptcy and eliminating workers’ jobs and pensions, then turn around and pocket millions in severance.	2			2	1	5
Corporate board diversity	At least a dozen EU countries require firms above a certain size to include worker representatives on their boards. ⁸⁴	Investment portfolio diversity decreases risk and improves overall performance. Corporate board diversity could have the same impact. European executive pay over the recent decades has consistently run at much lower levels than U.S. executive pay.					3	3
“Say on Pay” with teeth	In July 2011, Australia put into effect legislation that “gives shareholders the power to remove directors” if a company’s executive pay report gets a “no” vote from 25 per cent of shareholders or more at two consecutive corporate annual meetings. ⁸⁵ The former chief economist at the European Bank for Reconstruction and Development, Willem Buiter, has suggested that if shareholders vote down an executive’s pay package, the “default remuneration package” that goes to that executive must not “exceed that of the head of government.” ⁸⁶	Policies like these give shareholders much more power than they received through the new, purely advisory “Say on Pay” rules in the United States.	2		2	5		9

Reform	Description	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Statutory pay ratio limit	Labor Party legislators in Israel have introduced legislation in the Knesset that would cap Israeli executive pay at 50 times the pay of a company's lowest-paid workers. ⁸⁷ Australian Green Party legislators have pushed a similar idea in that country, in the form of a cap on CEO pay of no more than 30 times the average wage of their workers. ⁸⁸ In the United States the veteran management consultant Douglas Smith has called for legislation mandating "that any enterprise receiving taxpayer funds shall not compensate that enterprise's highest paid person in an amount greater than twenty-five times what the lowest compensated person receives." ⁸⁹ In New York State, Assemblywoman Deborah Glick has taken a step in this direction with a proposal to limit CEO salaries to \$250,000 at hospitals that take in state tax dollars. ⁹⁰	Corporate salary differentials near 10 and 20:1 have been commonplace in Japan and some European nations for many years. A government could step toward mandating such a limit by denying government contracts, tax breaks, or subsidies to any corporations that compensate executives at a set ratio of worker pay.	5		4			9
Allow firms to obtain tax deductions for incentive pay only if they share incentive rewards broadly within the enterprise	Congress, propose Harvard's Richard Freeman and Douglas Kruse and Joseph Blasi of Rutgers, ought to only allow tax deductions for executive incentives when corporations award as much incentive pay "to the bottom 80 percent of their workforce as they do to the top 5 percent." ⁹¹	Tax deductions for stock option deductions have now reached rather staggering levels. Using figures from Standard & Poor's ExecuComp database, Freeman, Kruse, and Blasi compute that these deductions averaged over \$50 billion a year from 2001 to 2007. This proposal would give major corporations a significant financial incentive to end top-heavy reward distributions.	2	3	2			7

Appendix 1: Companies that Paid Their CEOs More than Uncle Sam: Compensation and Taxes

Company, ranked by executive comp	CEO	Compensation		Taxes				
		Total executive compensation, 2010 (\$)	% change over 2009	U.S. corporate income taxes, 2010 (\$mil)	U.S. Pre-Tax Income, 2010 (\$mil)	Effective federal tax rate (%)	U.S. corporate income taxes, 2009 (\$mil)	Subsidiaries in tax havens
Stanley Black & Decker*	John Lundgren	32,570,596	253%	-75	-\$183	NMF	-1	50
Ford	Alan Mulally	26,520,515	48%	-69	\$4,057	-1.7	-274	3
Chesapeake Energy	Aubrey McClendon	21,044,952	13%	0	\$2,884	0.0	4	0
Aon	Gregory Case	20,783,301	100%	16	\$21	76.2	32	128
Bank of New York Mellon	Robert Kelly	19,379,257	73%	-670	\$2,363	-28.4	289	10
Coca-Cola Enterprises	John F. Brock	19,114,318	71%	8	\$746	1.1	0	4
Verizon	Ivan Seidenberg	18,126,854	4%	-705	\$11,921	-5.9	-611	0
Dow Chemical	Andrew Liveris	17,739,490	13%	-576	-\$821	NMF	65	64
Prudential Financial	John Strangfeld	16,187,028	10%	-722	\$2,407	-30.0	-49	36
Ameriprise	James Cracchiolo	16,252,851	-11%	-224	\$1,430	-15.7	199	7
Honeywell	David Cote	15,216,953	15%	-471	\$1,249	-37.7	-27	5
General Electric	Jeff Immelt	15,199,762	172%	-3,253	\$5,078	-64.1	-833	14
Allegheny Technologies	Patrick Hassey	14,978,587	48%	-47	\$87	-54.0	-91	0
Mylan Laboratories	Robert Coury	14,975,235	27%	-73	-\$273	NMF	43	32
Capital One Financial	Richard Fairbank	14,850,675	144%	-152	\$3,804	-4.0	278	0
Wynn Resorts Ltd.	Steve Wynn	14,615,779	74%	0	-\$239	0.0	0	16
Marsh & McLennan	Brian Duperreault	14,038,187	1%	-90	-\$296	NMF	-308	105
Boeing	Jim McNerney	13,768,019	0%	13	\$4,310	0.3	-132	42
Motorola Solutions**	Gregory Q. Brown	13,732,802	62%	7	\$265	2.6	-314	6
Nabors Industries***	Eugene Isenberg	13,537,486	-42%	-138	-\$255	NMF	-15	1
Qwest Communications	Edward Mueller	13,446,399	12%	-14	\$450	-3.1	10	0
Cablevision Systems	James Dolan	13,320,691	-21%	-3	\$591	0.4	8	0
Motorola Mobility****	Sanjay Jha	13,016,126	245%	12	-\$101	NMF	11	0
eBay	John J. Donahoe	12,382,486	22%	-131	\$848	-15.4	507	31
International Paper	John Faraci	12,303,423	75%	-249	\$198	-125.8	228	2
Total		417,101,772		-7,606	40,541		6,981	556
Average		16,684,071		-304	1,622		-39	
Median				-75		-4		
S&P 500 average		10,762,304						

Sources: see Appendix 4. NMF = not meaningful. Indicates firm had negative U.S. pre-tax income.

* result of merger between Stanley Works and Black & Decker, March 2010.

** Motorola Solutions is a data communications and telecommunications equipment provider that succeeded Motorola Inc. following the spin-off of the mobile phones division into Motorola Mobility in 2011.

*** Nabors Industries registers its headquarters in the tax haven country of Bermuda but is, for all intents and purposes, a U.S. corporation.

**** Motorola Mobility was the mobile devices division of Motorola until it began trading as a separate independent company on January 4, 2011.

Appendix 2: Companies that Paid Their CEOs More than Uncle Sam: Global Profits, Political Expenditures, and Headquarters

Company, ranked by executive comp	Global profits		Political expenditures			
	Global profits, 2010 (\$mil)	% change in global profits, 2010 over 2009	Campaign contributions by corporate PACs, 2009-2010 cycle	Lobbying expenditures, 2010	campaign contributions + lobbying expenditures	Headquarters
Stanley Black & Decker	198	-12	0	\$260,000	\$260,000	New Britain, CT
Ford	6,561	142	1,144,051	\$5,600,000	\$6,744,051	Dearborn, MI
Chesapeake Energy	1,774	n/a	758,541	\$2,776,560	\$3,535,101	Oklahoma, OK
Aon	706	-6	227,676	\$200,000	\$427,676	Chicago, IL
Bank of New York Mellon	2,518	n/a	856,689	\$1,400,000	\$2,256,689	New York, NY
Coca-Cola Enterprises	624	n/a	0	\$1,472,795	\$1,472,795	Atlanta, GA
Verizon	2,549	-30	1,952,392	\$16,750,000	\$18,702,392	New York, NY
Dow Chemical	2,310	256	546,019	\$8,120,000	\$8,666,019	Midland, MI
Prudential Financial	3,195	2	514,330	\$8,760,000	\$9,274,330	Newark, NJ
Ameriprise	1,097	52	136,322	\$2,180,000	\$2,316,322	Minneapolis, MN
Honeywell	2,022	-6	6,202,886	\$6,530,000	\$12,732,886	Morristown, NJ
General Electric	11,644	6	2,524,642	\$39,290,000	\$41,814,642	Fairfield, CT
Allegheny Technologies	357	26	34,513	\$50,000	\$84,513	Pittsburgh, PA
Mylan Laboratories	345	48	163,768	\$2,380,000	\$2,543,768	Canonsburg, PA
Capital One Financial	2,743	210	725,875	\$1,715,000	\$2,440,875	McLean, VA
Wynn Resorts Ltd.	625	166	2,400	\$150,000	\$152,400	Las Vegas, NV
Marsh & McLennan	855	277	92,397	\$1,070,000	\$1,162,397	New York, NY
Boeing	3,307	152	2,918,348	\$17,896,000	\$20,814,348	Seattle, WA
Motorola Solutions	633	n/a	545,121	\$3,350,000	\$3,895,121	Schaumburg, IL
Nabors Industries	7	-93	0	\$180,000	\$180,000	Hamilton, Bermuda
Qwest Communications	-55	-108	815,372	\$3,132,576	\$3,947,948	Denver, CO
Cablevision Systems	361	26	391,600	\$330,000	\$721,600	Bethpage, NY
Motorola Mobility	633	n/a	0	\$0	\$0	Libertyville, IL
eBay	1,801	-24.6	\$216,950	\$1,710,950	\$1,927,900	San Jose, CA
International Paper	644	-3	889,275	\$3,710,743	\$4,600,018	Memphis, TN
Total	47,454		21,659,167	\$129,014,624	\$150,673,791	
Average	1,898		866,367	5,160,585	6,026,952	

Sources: see Appendix 4

Appendix 3: Companies that Paid Their CEOs More than Uncle Sam: CEO Education Backgrounds

Company	CEO	University	Public?
Stanley Black and Decker	John Lundgren	Dartmouth/Stanford	No
Ford	Alan Mulally	University of Kansas	Yes
Chesapeake Energy	Aubrey McClendon	Duke	No
Aon	Gregory Case	Kansas State	Yes
Bank of New York Mellon	Robert Kelly	City University, London	Yes
CocaCola Enterprises	John F. Brock	Georgia Tech	Yes
Verizon	Ivan Seidenberg	City University of NY	Yes
Dow Chemical	Andrew Liveris	University of Queensland	Yes
Prudential Financial	John Strangfeld	Darden/University of Virginia	Yes
Ameriprise	James Cracchiolo	New York University	No
Honeywell	David Cote	University of NH, Durham	Yes
General Electric	Jeff Immelt	Harvard/Dartmouth	No
Allegheny Technologies	Patrick Hassey	California State	Yes
Mylan Laboratories	Robert Coury	University of Pittsburgh	Yes
Capital One Financial	Richard Fairbank	Stanford	No
Wynn Resorts Ltd.	Steve Wynn	University of Pennsylvania	No
Marsh & McLennan	Brian Duperreault	St. Joseph	No
Boeing	Jim McNerney	Yale/Harvard	No
Motorola Solutions	Gregory Q. Brown	Rutgers	Yes
Nabors Industries	Eugene Isenberg	University of Massachusetts	Yes
Qwest Communications	Edward Mueller	University of Missouri - Columbia	Yes
Cablevision Systems	James Dolan	SUNY New Paltz	Yes
Motorola Mobility	Sanjay Jha	University of Michigan	Yes
eBay	John J. Donahoe	Dartmouth/Stanford	No
International Paper	John Faraci	University of Michigan	Yes
Total who received at least a portion of their post-secondary education in taxpayer-supported public universities			16 of 25

Sources: Biographies of the CEOs from their corporate web sites.

Appendix 4: Sources, Methodology, and Terminology

Sources for graph on p. 5 on “Effective Corporate Tax Rates: Eisenhower to Obama 1952-2010.”

Corporate marginal tax information was derived from the Tax Policy Center: <http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=64&Topic2id=70>

Corporate effective tax rate was derived by dividing federal corporate income tax receipts as reported by President’s Budget for FY2012, Historical Table (<http://www.whitehouse.gov/omb/budget/Historicals>) Table 2.1 (Receipts by Source), column C; by pre-tax corporate income reported in U.S. Bureau of Economic Analysis National Income and Products Accounts, <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1> Section 1 (Domestic Product and Income); Table 1.12 (National Income by Type of Income); click “Options Icon”; Choose dates 1934 to 2010 (Q & A) and select “annual” bubble; Line 43 (Profits Before Taxes w/o IVA and CCAAdj). Income taxes reported by Bureau of Economic Analysis (Line 44) include state and local taxes, therefore we chose to use Office of Management and Budget data reported in President’s Budget.

Sources for data in Appendix 1:

Executive compensation: Associated Press. Includes: salary, bonuses, perks, any interest on deferred pay that’s above market interest rates, and the value a company places on stock and stock options awarded during the year. See: <http://hosted.ap.org/specials/>

[interactives/_business/executive-compensation/index.html?SITE=TNMAR&SECTION=HOME](http://www.ap.com/interactives/_business/executive-compensation/index.html?SITE=TNMAR&SECTION=HOME)

We excluded one company – Simon Properties – from AP’s top 100 list, since Simon Properties is a real estate investment trust, in which all of its corporate earnings are directly passed through to shareholders. As such, the company has no federal corporate income tax obligations.

Taxes: The data in this report is based on the “Current U.S. taxes paid” reported in the tax footnote of corporate Form 10-Ks, filed annually with the Securities and Exchange Commission. All are available electronically at www.sec.gov. We exclude “deferred taxes” because these are amounts that may or may not be paid at some future date, but for which no payment is made in the current year. Among the “deferred taxes” are taxes theoretically owed on money sheltered in offshore tax havens. So long as those funds are kept offshore, tax payments can be deferred indefinitely.

Though “Current U.S. taxes paid” remains the best approximation of actual taxes paid to the U.S. Treasury, there are reasons why this number still may be overstated. One of the most significant of these is the tax deduction companies receive for excess executive compensation. A more detailed description of this is found on page 7 of this report. The deduction for excess executive compensation is reported in such a manner that it appears that some of the stock-based

compensation paid to executives is taxes paid to the U.S. government.

U.S. Pre-tax Income: Domestic pre-tax profits are those reported by corporations in the tax footnote of its 10-K report. No attempt has been made to adjust for the domestic profits shifted to offshore subsidiaries through transfer pricing and other aggressive accounting techniques. Insufficient information is provided to accomplish this adjustment with any degree of certainty. It is however informative to compare the geographic breakdown of revenue, assets, employees, and reported domestic net profit for clues to companies' profit-shifting behavior.

Tax haven subsidiaries: calculated by the authors based on significant subsidiaries reported in 10-K filings and tax haven countries identified by the Government Accountability Office in "International Taxation: Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions," December 2008. See: <http://www.gao.gov/new.items/d09157.pdf>. These countries include: Andorra, Anguilla, Antigua & Barbuda, Aruba, Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Cook Islands, Costa Rica, Cyprus, Dominica, Gibraltar, Grenada, Guernsey, Hong Kong, Ireland, Isle of Man, Jersey, Lebanon, Liberia, Liechtenstein, Luxembourg, Macau, Malaysia, Malta, Marshall Islands, Mauritius, Montserrat, Nauru, Netherlands Antilles, Niue, Panama, Saint Kitts & Nevis, Saint Lucia, Saint Vincent & the Grenadines, Samoa, Seychelles, Singapore, Switzerland, Turks & Caicos Islands, U.S. Virgin Islands, and Vanuatu.

Sources for data in Appendix 2:

Global profits: Fortune magazine and 10-K reports. Percentage change in profits is indicated as n/a (not applicable) when the firm had negative revenues in 2009.

Campaign contributions and lobbying expenditures: Center for Responsive Politics web site: www.opensecrets.org. This site compiles information from lobbying reports filed with the House and Senate and campaign finance reports filed with the Federal Election Commission. Campaign contributions include total disbursements by corporate political action committees.

Terminology: Throughout this report we discuss corporations whose tax returns feature negative numbers on the "taxes owed" line of their income tax returns. We have chosen to use the word "refund" to describe this, because that is the term familiar to most readers. While some companies may in fact receive refund checks from the IRS, more choose to have their refunds applied to their account for future taxes due, much in the way that individual taxpayers can choose to have their refunds applied to the following year's estimated tax payments."

Endnotes

1. Calculated by the authors based on Associated Press survey of S&P 500 CEOs and U.S. Department of Labor wage data. See endnotes 2-3 for details.
2. Calculated by the authors based on Associated Press survey of 332 S&P 500 corporations. The total executive compensation figures include salary, bonuses, perks, above-market interest on deferred compensation and the value of stock and option awards. Stock and options awards were measured at their fair value on the day of the grant. See: http://hosted.ap.org/specials/interactives/_business/executive-compensation/index.html?SITE=TNMAR&SECTION=HOME
3. Worker pay is based on U.S. Department of Labor, Bureau of Labor Statistics, Employment, Hours, and Earnings from the Current Employment Statistics Survey. Average hourly earnings of production workers (\$19.07) x average weekly hours of production workers (33.4 hours) x 52 weeks = \$ 33,121.
4. See endnotes 2-3.
5. David Kocieniewski, "G.E.'s Strategies Let It Avoid Taxes Altogether," *New York Times*, March 24, 2011. See: <http://www.nytimes.com/2011/03/25/business/economy/25tax.html?pagewanted=all>
6. Citizens for Tax Justice, "Analysis: 12 Corporations Pay Effective Tax Rate of Negative 1.5%," June 1, 2011. See: http://ctj.org/ctjreports/2011/06/twelve_corporations_pay_effective_tax_rate_of_negative_15_on_171_billion_in_profits_reap_624_billion.php
7. Calculated by the authors based on 10-K filings and tax haven countries identified by the Government Accountability Office. For details, see Appendix 4.
8. U.S. Senate, "Tax Haven Banks and U.S. Tax Compliance," Staff report, Permanent Subcommittee on Investigations, July 17, 2008. See: http://hsgac.senate.gov/public/_files/071708PSIRreport.pdf
9. Nicholas Shaxson, *Treasure Islands: Uncovering the Damage of Offshore Banking and Tax Havens*, 2010. See: <http://treasureislands.org/>
10. Carl Gibson, "Corporate Tax Holiday Would Cheat American Taxpayers," *OtherWords*, May 23, 2011. See: <http://www.commondreams.org/view/2011/05/23-6>
11. Chuck Collins, "Stop Corporate Tax Dodging: Talking Points and Background Information," Institute for Policy Studies and Inequality and the Common Good, March 23, 2011. See: http://www.ips-dc.org/articles/stop_corporate_tax_dodging_talking_points_and_background_information
12. The President's Budget for Fiscal 2012; Office of Management and Budget, Historical Table 2.1
13. Corporate income taxes are derived from President's Budget for Fiscal 2012; Historical Tables (<http://www.whitehouse.gov/omb/budget/Historicals>) Table 2.1, Column C (Corporate Taxes); This amount includes federal corporate income taxes and other federal taxes including Superfund taxes; Corporate Pre-Tax Profit data is derived from the U.S. Bureau of Economic Analysis; National Income and Products Accounts, See: <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1> Section 1 (Domestic Product and Income); Table 1.12 (National Income by Type of Income); click "Options Icon"; choose dates 1952 to 2010 (Q & A) and select "annual" bubble; figures cited are unadjusted pre-tax corporate income.
14. Citizens for Tax Justice/Institute on Taxation and Economic Policy, "Corporate Taxes in the Bush Years," September 2004. See: <http://www.ctj.org/corpfed04an.pdf>
15. Sen. Carl Levin, "Levin-Brown Bill Would End Corporate Stock Option Tax Break, Reduce Deficit by \$25 Billion," July 15, 2011. See: <http://levin.senate.gov/newsroom/press/release/levin-brown-bill-would-end-corporate-stock-option-tax-break-reduce-deficit-by-25-billion>; Lori Montgomery, "Minimum-

- Wage Accord Produces Protests,” *The Washington Post*, April 24, 2007. See: <http://www.washingtonpost.com/wp-dyn/content/article/2007/04/23/AR2007042301886.html>
16. Bob Ivy and Christopher Donville, “Black Liquor Tax Boondoggle May Net Billions for Papermakers,” Bloomberg, April 17, 2009. See: <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=abDjfGgdumh4>
17. International Paper Company, 10-K report for fiscal year 2010. See: <http://www.sec.gov/Archives/edgar/data/51434/000119312511046928/d10k.htm>
18. International Paper Company, proxy statement for fiscal year 2010. See: http://www.sec.gov/Archives/edgar/data/51434/000119312511092389/ddefl4a.htm#toc134585_19
19. Michael Cohn, “Gaming the New Markets Tax Credit,” *Accounting Today*, February 23, 2011. See: <http://www.accountingtoday.com/news/Gaming-New-Markets-Tax-Credit-57369-1.html>
20. Prudential Financial, Form 10-K report for fiscal year 2010, Feb. 25, 2011. See: <http://www.sec.gov/Archives/edgar/data/1137774/000119312511047467/0001193125-11-047467-index.htm>
21. David Kocieniewski, “G.E.’s Strategies Let It Avoid Taxes Altogether,” *New York Times*, March 24, 2011. See: <http://www.nytimes.com/2011/03/25/business/economy/25tax.html?pagewanted=all>
22. General Electric, 10-K report for fiscal year 2010. See: <http://www.sec.gov/Archives/edgar/data/40545/000119312511047479/0001193125-11-047479-index.htm>
23. Chris Townsend, United Electrical, Radio and Machine Workers of America, based on media and union reports. Employment figure calculated by authors from General Electric 10-K reports for fiscal years 2010 and 2008.
24. Seidenberg stepped down as CEO on July 22, 2011.
25. Center for Responsive Politics. See: <http://www.opensecrets.org/lobby/clientsum.php?id=D000000079&year=2010>
26. “The Top 10 Layoffs of 2010,” *24/7 Wall St*, January 6, 2011. See: <http://247wallst.com/2011/01/06/the-top-10-layoffs-of-2010/#ixzz1Rq22auwK>
27. Stephen Bernard, “Bank of New York Mellon Repays TARP Funds,” *The Seattle Times*, June 17, 2009. See: http://seattletimes.nwsources.com/html/businesstechnology/2009350394_apusbankofnewyorkmellontarprepayment.html
28. Maha Atal, “Banker: ‘TARP Helped Avert a Global Calamity,’” *CNN Money*, July 23, 2009. See: http://money.cnn.com/2009/07/23/news/companies/tarp_banks_new_york_mellon.fortune/index.htm
29. Robert Kuttner, “Blowing a Hole in Dodd-Frank,” *The American Prospect*, March 18, 2011. See: http://prospect.org/cs/articles?article=blowing_a_hole_in_doddfrank
30. Carrick Mollenkamp, “New York’s Top Cop Jumps Into Fray,” *Wall Street Journal*, August 3, 2011. See: <http://online.wsj.com/article/SB10001424053111904292504576484441822166386.html>
31. Ben Armbruster, “Boeing Complains About Losing Health Care Tax Break Despite Being One Of Least Taxed Big Corporations,” *Think Progress*, March 31, 2010. See: <http://thinkprogress.org/economy/2010/03/31/89538/boeing-tax-break/>
32. Nicola Clar, “W.T.O. Rules U.S. Subsidies for Boeing Unfair,” *New York Times*, March 31, 2011. See: http://www.nytimes.com/2011/03/31/business/global/01trade.html?_r=1&pagewanted=print
33. Boeing Company, 10-K report for fiscal year 2010. See: <http://www.sec.gov/Archives/edgar/data/12927/000119312511028490/0001193125-11-028490-index.htm>
34. Phil Mattera, “Subsidizing State Tax Avoidance,” *Clawback*, April 13, 2011. See: <http://clawback.org/2011/04/13/subsidizing-state-tax-avoidance/>
35. Melanie Trotman, “Boeing, NLRB Clash Over Non-Union Plant,” *Wall Street Journal*, June 15, 2011. See: <http://online.wsj.com/article/SB10001424052702304665904576385980251033122.html>

Executive Excess 2011: The Massive CEO Rewards for Tax Dodging

36. Calculated by the authors based on subsidiary list included in the company's 10-K filing and the list of tax haven countries identified in U.S. Government Accountability Office, "International Taxation: Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions," December 18, 2008. See: <http://www.gao.gov/products/GAO-09-157>
37. Bermuda Insurance Market Regulations, 2011. See: <http://www.bermuda-insurance.org/x-regulations.htm>
38. J. David Cummins, "The Bermuda Insurance Market: An Economic Analysis," May 6, 2008. See: <http://www.bermuda-insurance.org/pdf-downloads/CumminsReport08.pdf>
39. Marsh & McLennan, 10-K report for fiscal year 2010, Note 17.
40. Marsh & McLennan, 10-K reports for fiscal years 2010, 2007 and 2004. See: <http://www.sec.gov/Archives/edgar/data/62709/000119312511047795/d10k.htm>; <http://www.sec.gov/Archives/edgar/data/62709/000119312508043337/d10k.htm>; and <http://www.sec.gov/Archives/edgar/data/62709/000006270905000062/f10kdec31-2004.txt>
41. Ben Berkowitz, "Marsh Launches Insurance for Foreign Bribery Cases," Reuters, July 12, 2011. See: http://www.lse.co.uk/FinanceNews.asp?ArticleCode=6gn3x0vsvfryisd&ArticleHeadline=Marsh_launches_insurance_for_foreign_bribery_cases
42. Halah Touryalai, "FDIC Wants To Seize Wall Street Salaries? There's Insurance For That," Forbes.com, May 2, 2011. See: <http://blogs.forbes.com/halahtouryalai/2011/05/02/fdic-wants-to-seize-wall-street-salaries-theres-insurance-for-that/>
43. In the firm's 10-K report, Stanley Black and Decker reported current taxes as -\$75 million, noting that they received a \$77 million refund from settlement of a prior year audit. Thus their actual cash taxes in 2010 were \$2 million, still less than they paid their CEO.
44. Stanley Black & Decker, proxy statement for fiscal year 2010. See: http://www.sec.gov/Archives/edgar/data/93556/000120677411000482/stanley_def14a.htm
45. Shareholders Foundation, "Stanley Black & Decker, Inc. Under Investigation Over Executive Compensation," 2011. See: <http://shareholdersfoundation.com/caseinvestigation/stanley-black-decker-inc-under-investor-investigation-over-executive-compensation>
46. Gus Sentementes, "Layoffs Begin At Stanley Black & Decker," *The Baltimore Sun*, April 27, 2010. See: http://articles.baltimoresun.com/2010-04-27/business/bal-stanley-layoffs-0427_1_stanley-black-decker-stanley-works-tim-perra
47. Tony Lucia, "Baldwin Hardware Closing, Laying Off 159," *Reading Eagle*, July 15, 2011. See: <http://readingeagle.com/article.aspx?id=320178>
48. Calculated by the authors based on Stanley Black & Decker 10-K report for fiscal year 2010 and 10-K reports for Stanley Works and Black & Decker for fiscal year 2005. See: <http://www.sec.gov/Archives/edgar/data/93556/000095012311015782/y04394exv21.htm>
49. Chesapeake Energy 10-K report for fiscal year 2010. See: <http://www.sec.gov/Archives/edgar/data/895126/000119312511052349/d10k.htm>
50. Nanette Byrnes, "Lowest Corporate Taxpayers," *Business Week*. See: http://images.businessweek.com/ss/07/11/1122_company_tax/index_01.htm?campaign_id=msn
51. Forbes 400. See: <http://www.forbes.com/wealth/forbes-400/list?industry=17&state=>
52. Christopher Helman, "It's High Time Chesapeake's McClendon Felt The Heat," *Forbes.com*, June 10, 2011. See: <http://blogs.forbes.com/christopherhelman/2011/06/10/its-high-time-chesapeakes-mcclendon-felt-the-heat/>
53. Steve Horn, "Chesapeake 'Declaration of Energy Independence': NAT GAS Act Embodied," Center for Media and Democracy, July 26, 2011. See: <http://www.prwatch.org/news/2011/07/10893/chesapeake-declaration-energy-independence-nat-gas-act-embodied>
54. Center for Responsive Politics. See: <http://www.opensecrets.org/politicians/contrib.php?cycle=2010&cid=N00013847&type=I> and

- <http://www.opensecrets.org/indivs/search.php?name=McClendon&state=&zip=&employ=&cand=Sullivan%2C+John&c2012=Y&c2010=Y&sort=N&capcode=qh6nq&submit=Submit>
55. eBay, Annual 10-K report for fiscal year 2010, January 28, 2011. See: <http://sec.gov/Archives/edgar/data/1065088/000106508811000003/ebay10k20101231.htm>
 56. John Donohoe, "New Internet Taxes Would be a Small Business Job-Killer," *San Jose Mercury News*, Sept. 10, 2010. <http://www.ebaymainstreet.com/news-events/ebay-ceo-new-internet-taxes-would-be-small-business-job-killer>
 57. Sen. Carl Levin, "Summary of the Stop Tax Haven Abuse Act," July 12, 2011. See: <http://levin.senate.gov/newsroom/press/release/summary-of-the-stop-tax-haven-abuse-act-of-2011>
 58. Sen. Carl Levin, "Levin-Brown Bill Would End Corporate Stock Option Tax Break, Reduce Deficit by \$25 Billion," July 15, 2011. See: <http://levin.senate.gov/newsroom/press/release/levin-brown-bill-would-end-corporate-stock-option-tax-break-reduce-deficit-by-25-billion>
 59. David Olive, "Business Guru Roger Martin Calls For CEO Pay Reform," *The Star*, May 3, 2011. See: <http://www.thestar.com/business/markets/article/985164--olive-business-guru-roger-martin-calls-for-ceo-pay-reform>
 60. Rick Wartzman, "Put a Cap on CEO Pay," *Business Week*, September 12, 2008. See: http://www.businessweek.com/managing/content/sep2008/ca20080912_186533.htm
 61. For a review of the literature, check "The Ineffective Enterprise," a discussion that appears in Sam Pizzigati, *Greed and Good: Understanding and Overcoming the Inequality that Limits Our Lives* (New York: Apex Press, 2004). See: <http://www.greedandgood.org/NewToRead.html>.
 62. Sarah Anderson, John Cavanagh, Chuck Collins, Mike Lapham, and Sam Pizzigati, "Executive Excess 2008: How Average Taxpayers Subsidize Runaway Pay," Institute for Policy Studies and United for a Fair Economy, August 25, 2008. See: http://www.ips-dc.org/reports/executive_excess_2008_how_average_taxpayers_subsidize_runaway_pay
 63. Lucian A. Bebchuk and Yaniv Grinstein, "The Growth of Executive Pay," *Oxford Review of Economic Policy*, Summer 2005.
 64. Securities and Exchange Commission web site, accessed August 8, 2011. See: <http://www.sec.gov/spotlight/dodd-frank/dfactivity-upcoming.shtml#08-12-11>
 65. Brian P. Wagner, "The New Federal Contractor Transparency Rules," Husch Blackwell LLP, 2011. See: http://www.huschblackwell.com/files/Publication/e41ccb47-caa6-41e9-ba3e-48e6891a1ce9/Presentation/PublicationAttachment/c6ebd4cb-aea8-4f55-ba60-508f50a6b732/WP_NewFedContractorTransRules.pdf
 66. Smaller companies (public float of less than \$75 million) are exempt from this rule until annual meetings on or after Jan, 21, 2013.
 67. Institutional Shareholders Services Inc., "2011 U.S. Season Review: 'Say on Pay,'" *Governance Weekly*, June 23, 2011. See: <http://www.issgovernance.com/docs/USReviewCompensation>
 68. Kit Addleman, Bruce Newsome, and Michael J. Halloran, "SEC Postpones Implementation of Shareholder Proxy Access," *Haynes Boone*, October 5, 2010. See: http://www.haynesboone.com/sec-postpones_implementation_shareholder_proxy_access/
 69. See Section 9014 of the Health Care and Education Reconciliation Act of 2010.
 70. Daniel F. Pedrotty, "Letter to Robert E. Feldman & Elizabeth M. Murphy," AFL-CIO, May 31, 2011. See: <http://www.aflcio.org/corporatewatch/capital/upload/AFL-CIO-comment-letter-on-incentive-based-compensation-arrangements.pdf>
 71. Americans for Financial Reform, "Re: Incentive-Based Compensation Arrangements," May 31, 2011. See: <http://ourfinancialsecurity.org/blogs/wp-content/ourfinancialsecurity.org/uploads/2011/06/AFR-956-5-31-111.pdf>
 72. Tax Policy Center, "Tax Carried Interest as Ordinary Income," *2012 Budget Tax Proposals*, 2011. See: <http://www.taxpolicycenter.org/taxtopics/Tax-Carried-Interest-as-Ordinary-Income.cfm>
 73. Sen. Carl Levin, "Levin-Brown Bill Would End Corporate Stock Option Tax Break, Reduce Deficit by \$25 Billion," July 15, 2011.

- See: <http://levin.senate.gov/newsroom/press/release/levin-brown-bill-would-end-corporate-stock-option-tax-break-reduce-deficit-by-25-billion>
74. Lori Montgomery, "Minimum-Wage Accord Produces Protests," *The Washington Post*, April 24, 2007. See: <http://www.washingtonpost.com/wp-dyn/content/article/2007/04/23/AR2007042301886.html>
 75. Democratic Policy Committee Press Release, January 23, 2007.
 76. Reed Hastings, "Please Raise My Taxes," *New York Times*, February 5, 2009. See: http://www.nytimes.com/2009/02/06/opinion/06hastings.html?_r=1&scp=1&sq=%22reed%20hastings%22%20and%20tax%20and%20executive%20compensation&st=cse
 77. European Parliament, "European Parliament ushers in a new era for bankers' bonuses," July 7, 2010. See: <http://www.europarl.europa.eu/sides/getDoc.do?language=en&type=IM-PRESS&reference=20100706IPR77907>
 78. European Commission, "Internal Market: Commission Requests Implementation Of Latest Bank Capital Requirements Rules," May 19, 2011. See: <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/612&type=HTML>
 79. AFL-CIO comment letter to the SEC and FDIC on Section 956 of the Dodd-Frank Wall Street Reform and Consumer Financial Protection Act, May 31, 2011. See: <http://www.aflcio.org/corporatewatch/capital/upload/AFL-CIO-comment-letter-on-incentive-based-compensation-arrangements.pdf>
 80. AFSCME, "Tipping the balance? Large mutual funds' influence upon executive compensation," undated. See: <http://www.afscme.org/news/press-room/press-releases/body/2011-AFSCME-Mutual-Fund-Report.pdf>
 81. Michael Steen, "Dutch Banks Agree Bonus Code," *Financial Times*, September 9, 2009. See: <http://www.ft.com/intl/cms/s/0/62fc6228-9d52-11de-9f4a-00144feabdc0,s01=1.html#axzz1SOXAkwhk>
 82. Richard Wachman, "Dutch Bankers' Bonuses Axed By People Power," *The Guardian*, March 27, 2011. See: <http://www.guardian.co.uk/business/2011/mar/27/dutch-bankers-bonuses-axed-by-people-power>
 83. Vincent A. Panvini Jr., "Performance-Related Compensation for Corporate Executives," *The Nation*, June 27, 2011. See: <http://www.thenation.com/article/161241/performance-related-compensation-corporate-executives>
 84. Worker-Participation, "Board-level Representation," 2010. See: <http://www.worker-participation.eu/National-Industrial-Relations/Across-Europe/Board-level-Representation2>
 85. Florence Chong, "Shareholders Given Say On Executive Pay," *The Australian*, July 6, 2011. See: <http://www.theaustralian.com.au/business/wealth/shareholders-given-say-on-executive-pay/story-e6frgac6-1226087523836>
 86. Willem Buiters, "Lessons from the global financial crisis for regulators and supervisors," *Financial Times*, May 26, 2009. See: <http://blogs.ft.com/maverecon/2009/05/lessons-from-the-global-financial-crisis-for-regulators-and-supervisors/#axzz1Tta4muGJ>
 87. Zvi Zrahiya and Lior Zeno, "Senior Jurist Blasts Executive Salary Recommendations," *Haaretz*, February 27, 2011. See: <http://english.themarker.com/senior-jurist-blasts-executive-salary-recommendations-1.345921>
 88. Australian Associated Press, "Greens Seek Limit On CEO Pay," *The Sydney Morning Herald*, May 13, 2011. See: <http://news.smh.com.au/breaking-news-national/greens-seek-limit-on-ceo-pay-20110513-1elk1.html>
 89. Douglas K. Smith, "The Maximum Wage," *Naked Capitalism*, July 19, 2011. <http://www.nakedcapitalism.com/2011/07/doug-smith-the-maximum-wage.html#comment-425609>
 90. Liz Benjamin, "Glick Targets Hospital Execs," *Capitol Confidential*, March 11, 2011. See: <http://blog.timesunion.com/capitol/archives/60260/glick-targets-hospital-execs/>
 91. Joseph Blasi, Douglas Kruse and Richard Freeman, "Inclusive Capitalism: Improving Benefits and Performance With Smarter Incentive Pay Plans," *The Nation*, June 27, 2011. See: <http://www.thenation.com/article/161247/inclusive-capitalism-improving-benefits-and-performance-smarter-incentive-pay-plans>



1112 16th Street, NW Suite 600
Washington, DC 20036
ips-dc.org