Pay of Small People; Pay of Big

Some people work hard to give high pay to CEOs (p 5)

Most companies will pay their CEOs more than the average pay.
- This helps to make an upward spiral.

Sports salaries also saw a huge increase.

In 1980, the CEO pay was about 40 times the average pay of a production worker; by 2003 it was about 400x (p 6).

The US has very high CEO pay in comparisons
- US CEOs get paid about 475x average worker (p 10).
- Other high pay countries (only 40x to 50x the average).
- Many other rich countries (Japan, Germany, Italy, France, New Zealand, Australia, England, etc.), CEO pay is just 11x to 24x the average worker.


Roy Jenne
Nov 24, 2003
Pay of Small People; Pay of the Big

Roy Jenne
Nov 13, 2003

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   • And worker pay was up 32%.
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Pay of US big chiefs jumps and jumps

• In 1980 the CEO pay was about 40 times the pay of the average production worker.
• In 1990, the CEO pay was about 85 times worker pay.
• In 2003, CEO pay is about 400 times worker pay.
MANAGER'S JOURNAL / By Henry A. McKinnell

Bad Medicine for Good Governance

FOR THE vast majority of ethical CEOs and senior managers at corporations throughout the country who witnessed the sight of corporate wrongdoers being led off in handcuffs over the past two years, the exposure of those who violated the trust placed in them by investors, colleagues, and the public has been painful. One instance of wrongdoing is one too many. But the fact is, the reforms brought on have ultimately been healthy.

We have seen more corporate governance reform in the last two years than we have seen in the last two decades. Boards are more independent. They're meeting more often. They've enhanced communications with shareholders. And director education and evaluation have increased.

These are real changes. They are having an impact. A great deal has been learned, and while it will be some time before we see the long-term impact, the members of the Business Roundtable—an organization of CEOs representing America's largest corporations—have been working to ensure this revolution in governance is substantial and lasting. A great deal has been accomplished, but there's more to be done.

We've called for boards to have a substantial majority of independent directors—in both fact and appearance—and for audit, nominating and compensation committees to be composed solely of independent directors.

We strongly advocated the Sarbanes-Oxley reforms and the enhanced NYSE and Nasdaq corporate governance listing standards. And we support the Securities and Exchange Commission's proposals to enhance disclosure about board nominating committees and improve shareholder communications with the board.

But in the urgency to run down misdeeds by corporate criminals, we must not tumble headlong into new regulatory adventures that could lead to a world of hostile takeovers, of green mail and corporate raiders, bringing the worst of our partisan politics into corporate governance. We do not need to construct a system that drags well-run corporations into destructive proxy fights, or to establish management by referendum by extending more direct control to shareholders.

That is why we believe that the proposal recently approved by the SEC to change the way candidates for corporate boards of directors are nominated and elected will have serious unintended consequences. The SEC has proposed rules that will require, in certain circumstances, the inclusion of as many as three shareholder director nominees in company proxy statements.

Looking beyond the proxy statement, these proposed reforms could lead to:

- The replacement of knowledgeable, engaged directors committed to the long-term life of a corporation by directors put up by special-interest blocs of shareholders whose agendas have little to do with the welfare of the corporation;
- Excessive turnover among directors, frequent proxy campaigns and disrupted meetings that distract company management and directors; and
- Well-run corporations with sound long-term strategies falling to corporate raiders manipulating revamped rules.

Our economy is already suffering from the aftermath of Sept. 11, the continuing war on terror, the bursting of the technology bubble and the loss of investor confidence due to corporate scandals.

Regulators and lawmakers must be diligent in not creating still another impediment to growth—a risk-averse environment for companies and their management, discouraging new investments and innovative competitive strategies.

We hope that the SEC will not act in haste but take time to assess the potential downside of a decision that wrongly targets good companies. It should first measure the success already achieved through recently enacted reforms.

Good corporate governance is vital to the health of our economy and to maintaining investor confidence. More openness and accountability are to be encouraged, but not at the expense of a stable and rational governance process that encourages management to look long-term—not over its shoulder.

There is much to do, but there is time to do it. We must get it right.

Mr. McKinnell is chairman and CEO of Pfizer, co-chairman of the Business Roundtable and chairman of the Business Roundtable's Corporate Governance Task Force's SEC Subcommittee.

Submissions should be sent to managers.Journal@wsj.com

WSJ Link: To view an archive of past Manager's Journal columns, please go to CareerJournal.com.
CEO pay up 535% for past 10 years

Study says jumps dwarf stock market, workers’ pay increases

By Mary Deibel
Scripps Howard News Service

If U.S. workers enjoyed the same 535 percent pay raise the nation’s top corporate chiefs have pocketed in the past decade, the minimum wage would be $24.13 an hour instead of $5.15, a new study finds.

The report also finds that, had wage earners gotten raises at the same pace as captains of U.S. industry, the average worker would make $114,035 instead of $23,753 a year.

“Executive Excess 2000” is a Labor Day weekend study from the Institute for Policy Studies and United for a Fair Economy, two self-styled “progressive” think tanks that use as their benchmark Business Week’s respected 50-year-old annual survey of corporate chief executive officer pay.

The two groups report that the 535 percent jump in CEO pay dwarfed the 297 percent rise in the stock market as measured by the Standard & Poor’s 500-stock index, the 116 percent rise in corporate profits overall, the 32 percent increase in average worker pay and the 27.5 percent increase in inflation during the 1990s.

Study co-author Sarah Anderson of the Institute for Policy Studies

Please see CEO on 4D

Continued from 1D

notes the findings come as details emerge on the “golden handshake” worth as much as $38 million in stock options plus pension that defense contractor Halliburton negotiated with CEO Dick Cheney when he quit to become the Republican vice-presidential candidate.

However, Anderson says, the explosion in CEO pay “is largely absent from the presidential campaign” as an issue even if rank-and-file workers find it disturbing.

The study also comes as House Speaker Dennis Hastert, R-III, proposes key concessions to business to try to make legislation raising the minimum wage to $6.15 over two years.

The House and Senate included $1 minimum wage increases in controversial bills that have stalled, causing some congressional Republicans to fear the issue will damage them in the November elections.

About 10 million workers who make between $5.15 and $6.14 an hour would be affected by the increase. For a minimum wage worker, $1 more would mean a $2,000-a-year raise.

Separately, Congress tried in 1993 to cap business tax deductions for “reasonable salaries and benefits” for executives at $1 million, but corporate boards have skirted the limits by declaring that pay-and-stock packages are “performance-based.”

The Business Week survey found that CEO pay shivered in 1999, with the top officers at the largest 362 U.S. companies pulling in $12.4 million on average — up 17 percent since 1998 and more than 600 percent since 1990.

The top 20 on Business Week’s list took in $112.9 million apiece, with the top five totaling $1.2 billion, even though this year’s dotcom shakeout has since reshaped the CEO landscape.

CEO Charles Wang of Long Island, N.Y., software maker Computer Associates was No. 1 on Business Week’s 1999 list with $655.4 million, mostly restricted stock. But the stock price plunged 70 percent from its January high of $75, leaving Wang to take home an estimated $95 million for 2000 even though he agreed to step down Aug. 7.

Rounding out 1999’s Business Week Five were Dennis Kozlowski of Tyco International at $169.9 million, David Pottruck of Charles Schwab at $127.9 million, John Chambers of Cisco Systems at $121.7 million and Steve Case of America Online at $117 million.

United for a Fair Economy founder Chuck Collins, a study co-author and an heir to the Oscar Mayer wiener fortune, says, “The good news is that these trends are not irreversible.”

Among other things, he urges a minimum wage increase along with increased investor activism. Such activism led Responsible Wealth to mount shareholder proxy fights demanding CEO pay freezes in the past year at American Home Products, AT&T, Citigroup, Honeywell, MBNA and other top corporations.

Responsible Wealth’s 18 challenges garnered millions of shareholder votes, but none succeeded.
Upping the Ante
As Some Decry Lavish CEO Pay, Joe Bachelder Makes It Happen

Negotiator Drives Up the Cost
To Firms of Hiring a Chief;
Also of Cutting One Loose

Going to Bat for Kozlowski

By George Anders

After 23 years of negotiating job contracts for top corporate executives, Joseph Bachelder still cringes at the memory of one early deal. Representing a grocery executive in 1986, he demanded that his client get a 4.9% stake in the business. The words had barely left his mouth when the company's controlling shareholder jubilantly agreed.

"I just died," Mr. Bachelder recalls. "I knew right away that I had underbid. We could have had more if I had just asked for it."

It's not a mistake he makes any more. From a small conference room he calls "the cave," Mr. Bachelder will haggle on the phone for hours to win multimillion-dollar executive-pay packages, which sometimes evoke astonishment or anger when made public. On a given day, he may battle for something as major as a chief executive's $19 million pension plan or as minute as a client's right to take home office photos if fired. "He will go back repeatedly on issues until he gets as much as he can," says John Wood, of executive recruiter Spencer Stuart.

You might think a person in Mr. Bachelder's shoes would be having a tougher time in this era of widespread public ire about lucrative CEO pay. Big investors are pressing for shareholder approval of takeover-related severance deals. High-paid bosses have faced heat from union-led crusades and congressional hearings.

Mr. Bachelder's methods suggest one reason it's difficult to rein in executive pay. He constantly rearranges terms of compensation contracts up to 25 pages long. Still, he believes he has won the best possible deal for clients. He and other lawyers in this line of work may make a token concession to the new climate—forgoing minor perks such as country-club membership—while continuing to fight for more important prizes such as rich executive pensions and restricted stock.

Fees for that can run as much as $100,000. Mr. Bachelder's hourly rate of $975 is one of the steepest for a corporate attorney. But Mr. Bachelder eventually coaxes most employers into paying his expenses for negotiating against the client.

Mr. Bachelder, 70 years old, represented Lawrence Bossidy, George

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Source: Wall Street Journal/Reuters Research Consulting
Leaders

Where's the stick?

Something has gone wrong with bosses' pay. The solution has to lie with shareholders

RUNNING a large public company is a stressful and important job. Thousands of employees and business partners and millions of customers and shareholders rely on the good judgment of corporate chief executives, who have to make decisions in a climate of constant uncertainty. Only the savviest and most determined need apply. Lately, though, these adjectives hardly spring to mind when company bosses are mentioned. For many, top bosses are not the toughest or most talented people in business, just the greediest.

A string of corporate scandals in recent years, from Enron to WorldCom to Tyco, have revealed senior executives apparently plundering their companies with little regard to the interests of shareholders or other employees. And even when no wrongdoing is alleged, huge pay awards are provoking growing outrage. Just ask Richard Grasso, the former chairman of the New York Stock Exchange, who went from folk hero to a symbol of excess almost overnight when it was revealed that he was due to receive $188m in accumulated benefits.

What is now causing the most indignation, in Europe as well as in America, are "golden parachutes" and other payments which reward bosses even when they fail (see page 64). Not only does it seem that bosses are being fed ever bigger carrots, but also that if the stick is finally applied to their backside, they walk away with yet another sackful of carrots to cushion the blow. Bugs Bunny couldn't ask for more.

The highest-profile cases of excessive pay, unfortunately, are not isolated exceptions. Bosses' pay has moved inexorably upwards, especially in America. In 1980, the average pay for the CEOs of America's biggest 40 companies was about 40 times that of the average production worker. In 1990, it was about 85 times. Now this ratio is thought to be about 400. Profits of big firms fell last year and shares are still well down on their record high, but the average remuneration of the heads of America's companies rose by over 6%.

This one-way trend in top executives' pay has rightly raised eyebrows, on both sides of the Atlantic. The supply of good bosses may be short, but can it be that short, even during an economic slowdown and stockmarket slump? A recent poll in Britain found that 80% of people believe that top directors are overpaid. This summer customers boycotted a Dutch retailer, Ahold, to express disapproval of the pay awarded to that company's new chief executive.

Unions in America and Britain want governments to be more directly involved in regulating bosses' pay. But that cure threatens to be even worse than the disease itself. It would be much wiser to play to capitalism's strength—its flexibility—and to encourage shareholders themselves, the ostensible owners of companies, to sort the problem out. For too long the missing element in the setting of top executives' pay has been the active interest of shareholders. Only once that comes into play can the bargaining between boards and bosses become a more equitable affair.

Lavish pay-outs are not only costly in themselves but can also damage the long-term health of a company. Too many bosses have manipulated corporate results to fill their own pockets. Moreover, pay packages thought excessive or unfair can destroy morale among the rest of a company's workforce.

So what should shareholders do? For a start, big institutional investors can often make better use of the powers that they already possess. In Britain this year shareholders received the right to vote on top executives' remuneration. And yet at only one company (GlaxoSmithKline) did big investing institutions vote against an existing package—not an impressive performance if they are genuinely aggrieved.

Beyond Lake Wobegon

The pay-setting process is characterised by what has come to be known as the Lake Wobegon effect, after the novel "Lake Wobegon Days" by Garrison Keillor. All Lake Wobegon's children are said to be "above average". Most boards appointing a new chief executive will seek the advice of a pay consultant, who will tell them the going rate. The trouble is, no board wants to pay the average for the job. The above-average candidate who directs have just selected as CEO, they invariably reason, deserves more. And so bosses' pay spirals upwards.

If shareholders want to break this mould they need to be far more diligent. Greater transparency about executives' pay will undoubtedly help, and moves in that direction in both America and Europe are to be welcomed. And yet shareholders must also exercise more say in choosing genuinely independent directors to select and monitor the CEO. Few public companies today in either America or Europe have a majority of independent directors. This week, America's Securities and Exchange Commission took steps in the right direction by proposing an increase in the power of shareholders to nominate and appoint directors. Once they have these powers, shareholders should make use of them.

That leaves the vexed question of how, and how much, to pay top bosses. There can never be any simple, single formula for this. Much will depend on the situation of each company. The boss of a firm in a stable or declining industry should probably not be paid in the same way as one in a fast-growing high-tech market. Some corporate boards ought to at least consider a return to what was once the norm in both America and Europe (and still is in Japan) and largely ditch pay-for-performance and instead pay largely through a straight salary (most lower-level employees are paid this way).

Yet most boards will probably stick with pay-for-performance of some kind. Whether in the form of options, the outright grant of shares, bonuses tied to criteria such as earnings or revenue growth, or some other means, pay should be explicitly aligned with the long-term interests of the owners, not short-term blips in share prices or profits. Whatever formula is chosen, some bosses are bound to try to manipulate it. This is why, in future, capitalism's pillars, the shareholders who own the company, will have to become more actively involved in choosing the directors who represent them and in policing what they do. Shareholders, after all, supply the carrots.
TAXES May 14, 2001

HOW THE SUPER-RICH LUCKED OUT TWICE

New data show the top earners are already enjoying lower rates

Countless investors, small and large, made big gains from the remarkable stock market runup of the late 1990s. Some of those gains, of course, proved fleeting when the bubble burst. But the big winners were those who made truly monumental gains and managed to cash out in time, according to just released data from the Internal Revenue Service.

While wage and salary data on average Americans has long been readily available, figuring out how those at the top are faring has always been far trickier: They are few in number, and they guard their financial privacy closely. Now, however, the IRS has published data on the top 400 individual taxpayers—the super-elite, as ranked by their reported adjusted gross income. There are no names, of course. Still, the new data show just how much income these big earners made in the aggregate for each year from 1992 to 1998, how much they received in capital gains, and how much they paid in taxes.

The numbers tell a story of growing concentration of income at the very top. Including salary, dividends, interest, and capital gains, the share of income going to the top 400 individual taxpayers rose by two-thirds between 1995 and 1998, according to Joel B. Slemrod, a University of Michigan economist who analyzed the new data.

To put it another way, the average income for a member of this group rose from $50 million in 1995 to a staggering $110 million in 1998, an increase of 117%. Meanwhile, the average income for all taxpayers rose from $36,000 to $43,000, an increase of 23%.

Even more striking, the widening income gap between the top earners and the average American was accompanied by a falling average tax rate for the highest paid. In 1998, the top 400 taxpayers paid only 22% of their adjusted gross income in income taxes, way down from 30% in 1995. By comparison, the average tax rate paid by all taxpayers actually rose slightly over the same stretch, to almost 15%. This number, which measures the total income taxes paid as a share of adjusted gross income, averages out the effects of all tax deductions and exemptions and the lower rates paid on long-term capital gains, and also takes into account the lower tax rates paid by many low-income households.

So why are tax rates for those at the top shrinking? Chalk it up to the lower rates paid on hefty capital gains. Most, but not all, of the income increase at the very top came from capital gains. In 1995, they accounted for 44% of the income of the top 400; by 1998, capital gains brought in 70% of their income. For the average American, capital gains made up only 8% of income.

To be sure, the outsized capital gains that helped boost the incomes and lower the average tax rates at the very top could well be transient. While likely to persist in 1999 and perhaps 2000, they could start to diminish as income tax returns reflect the bursting of the Nasdaq bubble.

PERMANENT LEAD? However long the effects of the boom last, the new numbers show that the amounts of money involved were enormous. In 1998, the last year for which data are available, the top 400 taxpayers received a total of $44 billion, or nearly 1% of all income. By comparison, in each of fifteen states, including New Mexico and Hawaii, all state residents combined earn less than $44 billion.

The experience of the top 400 is mirrored by less wealthy but still high-earning individuals. Take, for example, taxpayers reporting more than $500,000 in income. In 1998, this category included about 450,000 tax returns, a mere drop in the bucket compared to 125 million returns overall. Nevertheless, this group accounted for approximately 14% of all income that year, up from 8% in 1995. Their average tax rate fell over that stretch from 31% to 28%.

Will the income share of the top earners drop as the economy slows? Will their income fall faster than that of the average American? It's impossible to know. But it's clear that a relatively small number of individuals garnered a disproportionate share of the gains of the 1990s boom.

By Michael J. Mandel in New York
Big Send-Off
As Firms Pare Pensions
For Most, They Boost
Those for Executives
Special Plans and Their Cost
Lump Together Liabilities

The Last-Minute Sweetener

By Ellen E. Schultz
Staff Reporter of The Wall Street Journal

Sonny Arnold and Richard Korpan joined Florida Progress Corp. in 1989. Now, 12 years later, both men have lost their jobs since Carolina Power & Light Co.'s acquisition of the utility last year. For one of the men, it's a case of hard luck. For the other, it's a case of hard cash—lots of it.

Mr. Arnold, a 62-year-old welder-mechanic, hasn't worked the requisite 15 years to begin drawing his pension of $681 a month. He must wait three more years for that. The house he and his wife live in Tampa is paid for. The children are grown and on their own. And Mr. Arnold is receiving $22,938 in severance pay. But he still needs the paycheck.

"I'm going to try to find some work," Mr. Arnold says. That won't be easy, though, because he has asbestosis and lost much of the use of his left hand in an accident on the job. He isn't eligible for retiree medical coverage and won't be eligible for Medicare until he turns 65. "I don't know what I'm going to do."

Mr. Korpan, 59, needn't look for work. As the former chief executive of the St. Petersburg company, he enjoys the benefits of a pension agreement custom-tailored for him. Among other things, it credits him with 35 years of service, which will bring his yearly pension to $828,545, or $69,670 a month, according to company filings. He also gets $15.8 million in severance.

ClibPDF - www.fastio.com
Outrageous CEO Pay: A Primer

Since markets turned shaky, a new round of jawshuffling about the unseemliness of executive compensation practices has gathered steam. One business magazine that shall remain nameless even called it "The Great CEO Pay Heist." Of particular fanfare was Apple's bestowal on Steve Jobs of a stock-option package valued at $548 million. Something clearly has come loose, hasn't it?

Yes, but this emblematic phenomenon of our times has yet to be explained in any convincing fashion, despite much gnashing of bluespuds. We're told that CEOs are greedy, but who isn't? We're told that boards and compensation consultants are too cozy with management, but cronyism is a human constant and U.S. companies have a reputation for being the most shareholder-responsive in the world.

Let us clear a way some of the false gods and standard sophistries. CEO pay is not an attempt to set up a "right" moral universe, though much writing on the subject speaks the language of reward and punishment. The purpose is behavior modification, to shoo management toward an obsession with the share price.

Somehow this idea is hard for people to take aboard. They roll their eyes and talk about "moving the goalposts" when, for instance, companies adjust management's options to make up for an unexpected drop in the stock price. But the carping is silly. If it makes sense to dangle a pre-emptory share-price incentive in front of executives when times are good, it makes sense when times are bad. And managers aren't slaves. They'll just go work someplace else if their options are hopelessly out of the money.

No less misguided is the argument that companies should be required to take a charge against earnings for the imputed cost of management's stock options. Fans love this proposal not because it would make accounting sense but because it would be embarrassing to CEOs.

Unfortunately, the idea is wrong as a matter of accounting logic. Executive stock options are not paid for out of earnings or revenues. Properly understood, options are a transaction outside the business between shareholders and their hired guns. Shareholders certainly suffer a real cost in giving up some of their ownership to management, but redistributing the pie in this way doesn't create a new claim on revenues or impinge on profits.

This may seem unduly technical for a family newspaper, but it explains why markets have been relatively relaxed about CEO compensation even as the media and social critics go berserk. Investors may or may not understand that dilution is hanging over their companies, but they get compensated automatically anyway because management's options become valuable only when and if the stock rises enough to hit the target price.

Hence the biggest canard of all, the claim that stock prices would plummet across the board if the "true cost" of management options were deducted from earnings, as if accounting semantics somehow determine underlying realities. This prediction might at least be right for the wrong reasons if wool was being pulled over the market's eyes. But it isn't. Studies show that companies that award large numbers of options pay a price in the market for the impending dilution—as they should.

The real question is why options packages have to keep getting bigger and bigger so boards can recruit or retain the CEOs they want.

Take Mr. Jobs. In theory the world is not short of talented leaders who might find a profitable future for Apple Computer, but the market doesn't know who they are. In the known universe of available CEOs Mr. Jobs is leaps ahead of anyone else. Indeed, investors at this point would probably abandon faith in Apple's survival as an independent company if Mr. Jobs were, say, struck down by a meteorite.

Or take the six-year strip-tease by which GE settled on Jeffrey Immelt to succeed Jack Welch. This was about more than just due diligence—it was about creating a ritual to transfer Mr. Welch's mystique to his successor.

Such examples testify to the power of managerial celebrity in a market made up of millions of investors. After all, a company's share price is nothing more than a collective vote of confidence in its future, and what do investors have to go by but management's record and reputation? Especially since so much of a company's value these days depends on the intangible qualities of its decision-making and alertness to opportunity.

So the advent of people's capitalism goes a long way toward explaining why boards will offer the moon and stars to a CEO who appears to have the market's blessing. But an important countervailing force has gone missing.

It's no accident that dangling desperately large stock incentives in front of management has become the main way of controlling the corporation since another avenue, the hostile takeover, was closed off in the early 1990s. Herein lies the best fix.

Think about the dilemma facing Disney's board: It's hard to imagine whom it could find and peddle to the market as a Michael Eisner replacement, so the board goes on paying him big bucks to stick around. But somewhere an unknown entrepreneur with a plan could be making the rounds among deep-pocketed investors to finance a run at the company.

Better than railing about CEO pay would be reopening the market for corporate control. Nothing would do more to redress the imbalance of power that puts CEOs in the catbird seat. Several large pension funds are already lobbying the stock exchanges to require companies to put their compensation schemes up for shareholder vote. This is OK as far as it goes, but big investors should be pushing harder to force companies to dismantle their poison pills and other antitakeover defenses.

Executive compensation might still drop overnight, but an important form of negative sanction would be restored once the takeover market is resuscitated. Shareholders wouldn't be stuck relying entirely on bribes to get management's attention.
May 3, 2001

Letters

CEOs' pay, perks insult average worker

Once again, the average worker reads about the incredible perks afforded to today's CEOs. Executives making millions, companies paying for automobiles, financial services, airplanes, health and country-club memberships and corporate discounts ("Many execs pocket perks aplenty," Cover Story, Money, Tuesday).

Yet, these same CEOs, who accumulate incredible wealth, have done nothing to ensure that the average worker can invest in companies and accumulate enough money to retire comfortably. I've seen my 401(k) lose more than 40% of its value during the past 18 months. I have seen investments in securities and mutual funds lose more than 50% of their value. It will take me years to recover these losses — if ever.

What ever happened to performance-based incentives?

Many CEOs should be embarrassed to walk the halls of their corporate offices and face the average worker, who is expected to be "grateful" to receive an annual 5% salary increase.

Just look at the stock prices of companies such as AOL, Cisco, Dell, Intel, Yahoo, Becton Dickinson and Oracle to name just a few.

Are the CEOs of these companies feeling the stock-price losses on their portfolios? Unlikely, when they're paid millions — and for what?

Robert Feinberg
Plantation, Fla

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EXECUTIVE PAY Chief executives receive far more pay relative to workers on the factory floor in America than in other countries. A survey of Standard & Poor's 500 leading companies finds that, on average, top American bosses take home 475 times more than workers. A study conducted by Towers Perrin, an international consultancy, shows that European bosses take only 11 to 24 times as much as their underlings. Several South-East Asian and Latin American countries fall between the extremes. Both reports take into account incentive packages composed of shares and share options. One example is Charles Wang, boss of Computer Associates: he took a mere $4.6m in salary and bonus in 1999, but added over $650m in long-term, performance-based compensation.

Chief executives' pay
As a multiple of manufacturing employees' pay, 1999

Data on more countries are available to subscribers at www.economist.com

Sep 30, 2000
The Economist

THE ECONOMIST SEPTEMBER 30TH 2000
College presidents' salaries on the rise

Associated Press

While tuition costs keep on rising, so do the salaries of college presidents.

A survey of college presidential salaries revealed Monday that the compensation packages given the leaders of four private universities in the 2002 fiscal year topped $800,000.

The Chronicle of Higher Education's annual salary report also said that the top officials at 12 public schools are scheduled to earn more than $500,000 in 2003-04.

With an annual package of salary and benefits totaling $891,400, Shirley Ann Jackson, the president of Rensselaer Polytechnic Institute in Troy, N.Y., was the top earner among college presidents last year, the Chronicle said.

With an annual package of salary and benefits totaling $891,400, Shirley Ann Jackson, the president of Rensselaer Polytechnic Institute in Troy, N.Y., was the top earner among college presidents last year, the Chronicle said.

The Chronicle said that doesn't include Jackson's compensation for serving on eight corporate boards, which adds an additional $591,000 to her annual income.

Closely behind Jackson on the list of top earners among private school presidents were Gordon Gee, who was president at the University of Colorado from 1985 to 1990 and is now the president of Vanderbilt University in Nashville ($852,000), the University of Pennsylvania's Judith Rodin ($845,474) and Arnold Levine of Rockefeller University ($844,600), who has since resigned for health reasons.

The Chronicle said the $677,500 that will be paid in salary and benefits in 2003-04 to the University of Michigan's Mary Sue Coleman puts her atop the list of public institution leaders.

Coleman is followed on the public schools list by University of Delaware President David Roselle, who will earn $630,654 this academic year and Richard McCormick, who will receive $625,000 to head New Jersey's Rutgers University.

University of Colorado President Betsy Hoffman's salary for 2003-04 is $400,000. She received no raise this year.

Her contract doesn't contain cash perks, but she lives in a house provided by the university and drives a Cadillac Deville touring sedan, provided by McCaddon Automotive of Boulder.

During the 2001-02 fiscal year, the Chronicle said, the chief executives of 27 private schools received compensation in excess of $500,000.

The Chronicle compiles its data on the salaries paid the presidents of private institu-
Chart 3-8  Factors Generating Growth of Hours Worked
Overwhelmingly, the increase in aggregate hours worked since 1953 reflects the
increase in the working-age population.

Average annual percent change

Members of the Labor Force per Person in the Population Aged 16 and Over (participation rate)
Population Aged 16 and Over Hours Worked
Employed Workers per Member of the Labor Force

-0.02  0.01

Note: Data on hours worked, total and per worker, pertain to the private nonfarm business sector, whereas data
on the employment rate, participation rate, and population pertain to the whole economy.
Sources: Council of Economic Advisers and Department of Labor.

Chart 3-9  Average Weekly Hours in the Nonfarm Business Sector
The length of the average workweek trended downward from the early 1960s until
the early 1980s. Since then it has been about flat.

Source: Department of Labor, unpublished data.

From: Economic Report of President

USA 115
WHEN BOSSES GET RICH FROM SELLING THE COMPANY

Golden parachutes are rewarding dealmaking CEOs

When a company announces big merger plans, rank and file employees often suffer a mass anxiety attack: What plants will close? Which departments will shrink? Who will be laid off? In the executive suite, however, the mood is more upbeat. As this season's proxies show, when companies merge or sell out, chief executives get mind-blowing pay deals whether they stay on or ride off into the sunset—regardless of past performance.

The payouts are so big, in fact, that some observers are raising questions about CEO motives. Rich exit packages—so-called golden parachutes—"were designed to relieve executives from having to worry about what could happen to them, so they could evaluate deals effectively," says Carol Bowie, research director of Executive Compensation Advisory Services, a consultancy in Springfield, Va. "We've now come 180 degrees, to the point that the money is so big that it must be difficult, if not impossible, not to consider one's own situation."

Charges of conflicts of interest are already surfacing. As part of its takeover defense, Computer Sciences Corp. filed suit against Computer Associates International Inc., alleging that CA's CEO, Charles B. Wang, tried to win CSC CEO Van B. Honeycutt's support for a deal with a $35 million payout and an employment contract worth $17.5 million. CA denies the allegations.

NO PERFORMANCE ANXIETY. Even without such potential conflicts, the severance packages are eye-popping. Some $20 million in cash, stock, and various perks went to ITT Corp. CEO Rand V. Araskog when ITT was acquired by Starwood Hotels & Resorts. Although Araskog has left the company, in January he received an option grant of 162,500 shares of Starwood in exchange for help during the transition. The deal also commits ITT to paying the "grosstup" taxes due on Araskog's cash severance payments. That could cost an additional $22.5 million, says Donald Fisher, principal at Pasadena (Calif.)-based Compensation Resource Group Inc. And the package is unrelated to ITT's performance. Before its takeover battles began, ITT's stock had seriously underperformed the market.

Another sweet sendoff goes to Kent Kresa, CEO of Northrop Grumman Corp., who will collect a cash payment of $7.8 million and see his stock rights and options worth $16.1 million vest should Northrop's merger with Lockheed Martin Corp. go through. Former Tandem Computers Inc. CEO Roel Pieper was another winner: After selling out to Compaq Computer Corp. last year, Pieper walked away with $8 million in cash, along with 650,000 new Compaq options and the conversion of Tandem options into Compaq ones. Tandem's earnings and stock price had languished for years before the deal.

You don't have to leave to cash in, either. Sometimes CEOs who stay on get special bonuses as well. When Charles E. Rice, CEO of Barnett Banks Inc., sold out to NationsBank Corp. last year and agreed to become nonexecutive chairman, he received 250,000 NationsBank shares and options for 400,000 more. The proxy stipulates that his annual salary and bonus must be at least $3.5 million—and never less than that of NationsBank CEO Hugh L. McColl Jr. "That would appear to be an ego clause," says Charles M. Elson, a pay expert and professor at Stetson University College of Law. In 1996, Rice's salary and bonus totaled $2.5 million.

RETAILER FEES. Then there's Bert C. Roberts Jr., chairman of MCI Communications Corp., which is being acquired by WorldCom Inc. If the deal goes through, Roberts will become chairman, and he and other senior execs will split a "retention-bonus pool" of $170 million. Roberts' share: $10.5 million. The move wasn't WorldCom CEO Bernard J. Ebbers' idea. MCI had negotiated similar terms in its failed merger with British Telecommunications PLC and extended the terms with WorldCom. "Basically, we walked into the BT-MCI agreement," says a WorldCom spokeswoman.

Another growing trend is to guarantee a departing exec a fat consulting contract. Northrop Grumman's Kresa, for example, would garner $1.4 million in his first year as a consultant. IBM's latest proxy provides CEO Louis V. Gerstner Jr. a 10-year consulting contract upon retirement. He will be paid at the daily rate of his final salary.

But ex-execs don't even have to come
DOWN AND OUT IN THE MIDST OF A BOOM

Close to one-third of all working Americans spent the late 1990s grinding away for wages of $8 an hour or less. Many others, caught up in a great boom, may have imagined that people in this huge pool just weren’t energetic or hard-working enough to make a decent living. In Nickel and Dimed: On Not Getting By in America, Barbara Ehrenreich asserts that this is far from true. “I grew up hearing over and over, to the point of tedium, that ‘hard work’ was the secret of success,” she writes. “No one ever said that you could work hard—harder even than you thought possible—and still find yourself sinking ever deeper into poverty and debt.”

Nickel and Dimed is an “old-fashioned,” in-your-face exposé of how this other one-third lives. For her research, Ehrenreich, the left-leaning social critic and author of Fear of Falling and other books, left a comfortable life to labor alongside those in the slow-lane world of waitresses, nursing-home attendants, and housekeepers. In doing so, she followed in the footsteps of such writers as George Orwell, who in the 1930s chronicled the work lives of poorly paid Paris restaurant dishwashers, and Michael Harrington, whose 1962 The Other America inspired supporters of Lyndon B. Johnson’s War on Poverty.

Ehrenreich’s account is angry, amusing, and ultimately painful. But it falls short of ideal. Orwell brought his work to life by focusing on a few central characters. Ehrenreich, by contrast, introduces too many co-workers—one of them really memorable. Still, this important volume will force anyone who reads it to acknowledge the often desperate plight of Ehrenreich’s subjects. And because she draws grim conclusions about their lot during a time of economic growth, the book raises scary questions about what will happen in a less bustling, post-welfare-reform U.S.

During her three-month sojourn, the author avoided cities such as New York and Los Angeles, “where the working class consists mainly of people of color and a white woman with unacquainted English seeking entry-level jobs might only look desperate or weird.” Instead, she found positions in the suburbs and exurbs of Florida, Maine, and Minnesota. In each locale, she took the highest-paying job that she could find quickly. Except for waitressing, where part of the income came from tips, her hourly pay always exceeded the minimum wage: In Key West, Fla., she worked two different restaurant jobs and supplemented her income with a $6.10-per-hour stint as motel housekeeper. In Portland, Me., she became a $6.65-per-hour cleaning lady for a national maid service and also worked weekends as a $7-per-hour nursing-home aide. In Minneapolis, she became a salesclerk at Wal-Mart, where her hourly pay was $7.

A key finding: The working poor have little choice but to take more than one job at a time. The author tried mightily to keep costs low, living in cheap motels—$245 a week in Minnesota—and driving a Rent-A-Wreck car. But even with no children to support, she couldn’t make ends meet on one paycheck. The result was exhaustion: The long hours and hard labor “absorbed all my energy and much of my intellect.”

Such fatigue, according to Ehrenreich, partly explains why there is little social unrest among low-wage workers. She insists that America’s working poor are far from homogeneous, but she finds that they do share some characteristics: passivity and resignation. Few of the people she encountered were interested in unionization, and even their vices were minor. When her co-workers wanted to “bust out,” they didn’t turn to riot or alcohol, but rather to their cars. Her housekeeper friend, for example, delighted “in pushing the pedal to the metal and terrorizing the elegant neighborhoods” where they toiled.

Working as a maid drove home to Ehrenreich the marginalization and dehumanization of the American poor. One company where she interviewed, Merry Maids, is the largest of the residential-cleaning services that have sprouted in the past 20 years. In its advertising, the company portrays its workers as paragons of industry, eager to get down on their hands and knees to clean floors. Meanwhile, she says, such outfits take great pains to limit the contact between clients and workers, making sure to rotate employees at each location so that individuals never emerge as sympathetic human beings in the eyes of clients.

Ehrenreich’s descent into this underclass life filled her with a burning anger. She rails against a universe in which workers are banned from talking to each other, denied trips to the bathroom, forced to allow management searches of their purses at any time, and kept on their feet—or their knees—for hours on end with few breaks. She instructs us that many of these workers toil in a world few of us would voluntarily enter. You don’t have to be poor to have to clean up dirt, but for many low-wage workers, living with filth is the rule, not the exception. Like Orwell, Ehrenreich fixes on sights and smells as her most odious memories. “Down there, below knee level,” she says, describing work as a housekeeper, “you find elaborate dust structures held together by a scaffolding of dog hair; dried bits of pasta glued to the floor by their sauce; the congealed remains of gravy, jelly, contraceptive creams, vomit, and urine.” Standards of work may have improved in the 20th century, but for the working poor, there is still a long way to go.

BY ANNE COLAMOSCA

Colamosca is co-author of The Judas Economy: The Triumph of Capital and the Betrayal of Work.
PAY DIFFERENTIALS

As we have seen, the wages of free American workers during the colonial period were remarkably higher than those of contemporary English workers. When American industry started to develop at the turn of the nineteenth century, the money wages of unskilled adult laborers were still much higher than they were in England, perhaps by as much as one-third to one-half. The differential was attributable to the fact that a floor under the remuneration of labor in industry was set by rewards in agriculture. Well into the 1800s, there were no insuperable obstacles, either of distance or expense, to obtaining a fertile farm. Output per worker in agriculture was relatively high, and the course of agricultural technology in the early nineteenth century tended to increase output per person rather than output per acre, as was the case in England. Moreover, farmers in America, who ordinarily owned their own land, received, in addition to their own wages and those of their families, elements of rent and profit that in England went to the landlord and the tenant farmer, as distinguished from the agricultural laborer. Finally, American farmers always stood to gain from appreciation in land values as the country's population moved westward.

However hard the lot of antebellum laborers by today's standards, workers in the United States continued to be well-off compared to workers in England. Sharp increases in immigration during the 1830s and 1840s, along with the drift of settlement opportunities ever farther from the urban East, led to a narrowing of the wage differential between American and British labor; even so, the floor for U.S. industrial wages was, by consensus of voluminous testimony, relatively high up to 1860.

More importantly perhaps from the perspective of free American workers was the change in relative wages among various "grades" or skill levels of workers. During the first decades of the nineteenth century, as throughout most of the colonial period, the premiums paid for artisan skills in the United States were less than those paid in England. By "premiums," we mean the extra compensation above wages to unskilled labor; hence, skilled workers in the United States earned more than their counterparts in England, but their ratio of wages was less than the ratio of the wages of unskilled Americans to the wages of unskilled English workers. The relatively low premium paid for skilled labor in early nineteenth-century America resulted particularly from such causes as the greater pulling power of agricultural expansion on unskilled labor and the higher proportion of skilled British migrants entering the United States before mass migration began. By the 1820s, however, this pre-

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**TABLE 14-1**

Ratios of Daily Wages of Machinists and Common Laborers in Urban Massachusetts, 1825–1860

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<th>Year</th>
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<td>190</td>
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<td>1851–60</td>
<td>220</td>
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Source: C. D. Wright, Comparative Wages, Prices, and Cost of Living (Boston: Wright and Potter, 1869), pp. 22, 54, and 55. As quoted in Williamson and Lindert, p. 71.
• Sports salaries go up & up
Share Scare

Chief executives are stuffing their pay packages with shares that will allow them to profit even if investors don't. This is not a bullish sign from corporate bigwigs: They must expect things to get worse.

BY BERNARD CONDON

Follow the Money, Especially That of Marc Bell. That's the conclusion Wall Street drew about Globix, a Web-hosting company whose stock began falling after the 33-year-old chief executive unloaded a quarter of his shares a year ago. The move suggested that the head guy lacked confidence in his company's prospects. Deepening red ink and the market's Web-o-phobia have knocked 95% off Globix, to a current $3 per share.

Well, then what should we make of the $6 million worth of free Globix shares the company recently gave Bell, the first time it has granted such an award? Is it a bullish sign for Globix?

Called restricted stock, these things vest in four years—meaning all he has to do is stick around to benefit, assuming that the company survives. If he had gotten stock options, he'd at least have had to shell out some money to exercise them. With the restricted stock, he doesn't even have to meet any performance objectives to benefit. Bell has it easy.

"This is heads I win, tails you lose," says Mary-Ellen Robinson, an analyst at Proxy Monitor, an investment adviser critical of share dilution from Globix's stock plan. "Bell is getting rewarded for tenure, not results." The company says it needed to preserve options set aside in its stock plan for future hires, and that the $2.4 million Bell spent exercising old options since December shows confidence in Globix's future. Wall Street remains unimpressed, and the stock hasn't moved much.

When stocks were rising, executives liked options. Now they are falling in love with restricted stock. Absent a bankruptcy filing, it's worth something even if the stock goes nowhere.

Joseph Bachelder, a New York lawyer who represents chief executives in negotiations over pay, helped design a precursor to restricted shares, called performance shares, as the market headed into its last big bearish spell. No surprise, they soon replaced options as the favored stock award. "Restricted shares are back because people are uncertain how fast we'll pull out of this bear market," he says. "The increase is as much a comment on stocks in general as on individual companies."

Graef Crystal, a former pay consultant and current Bloomberg columnist, puts the matter more colorfully: "With restricted stock you just have to breathe 18 times a minute to make a profit."

Is there any reason why shareholders should like restricted stock? Just a tiny one—the accounting is more honest.

[An ominous parallel to the 1970s bear market.]

[...]

146 FORBES • May 14, 2001
For a piece of the pie

In Los Angeles, striking for some pay equity

**By Mike Tharp**

LOS ANGELES—Some 42,000 county employees—from librarians, to deed registrars, to dogcatchers—walked off their jobs briefly here last week. They joined more than 4,000 transit workers already on strike, turning the City of Angeles into a center of economic discontent while much of the rest of the nation basked in flush times.

The workers returned to their jobs after union and county officials reached a fragile truce in response to an appeal from Cardinal Roger Mahony, of the Los Angeles Catholic Archdiocese. "It is my firm belief that the issues raised by both parties will be resolved only through continuous face-to-face negotiations rather than through a protracted strike," the prelate said in a statement. But there's a sense that the talks could collapse at any moment, sending the employees marching back out to the picket lines.

Money is at the root of the municipal unrest, but experts say there's more going on here, that there's a spreading feeling among lower-wage workers that they're not getting their due. And L.A. is not the only place they feel dissed: Philadelphia and Boston teachers narrowly avoided walkouts after contentious contract talks, and public employees in Sacramento were back at work last week after a short-lived strike there.

**More to come?** "The national AFL-CIO has focused a lot of energy and resources on L.A. and California," says Kent Wong, director of the Center for Labor Research and Education at UCLA. "They hope this will serve as a model for other labor movements in the country."

Despite its recent prosperity, Los Angeles has yet to fully recover from the recession in the early 1990s. Back then, many county workers deferred raises. Some were laid off. The county accounted for 71 percent of all jobs lost in the state, says Jack Kyser, chief economist of the Economic Development Corp. of L.A. County. But now that the economy's booming, the municipal workers—60 percent of whom earn less than $32,000 a year—want a piece of it. The county is offering them a 9 percent pay hike over three years. The workers—represented by the Service Employees International Union—want a 15.5 percent raise and better staffing, especially in public hospitals and clinics.

Says electrician Michael Everett, a member of the Hollywood Fair Trade Campaign: "This place is like Dickens's London, just incredible income disparity."
WHAT EXACTLY IS A ‘LIVING WAGE’?

A grassroots movement aims to raise pay for the working poor. Here are some of the implications...

Another spring, another student protest. But this time, undergrads at Harvard University won significant national attention for their cause. For three weeks starting in April, they staged a sit-in to demand that Harvard pay a “living wage” to its 1,000 or so janitors and other service workers, including those working for subcontractors. Students folded their tent city on May 8, after Harvard agreed to form a committee with student and worker representatives to look at raising pay rates that start at $6.50 an hour. The students argued that Harvard should pay at least $10.25, enough to lift a family of four above the federal poverty line.

Their effort cast a spotlight on a national movement to force universities, cities, and other public employers to pay a living wage. Religious, student, and labor groups all have become involved in the cause. Here’s an overview of what they’re doing and why.

What is the living-wage movement?

It’s a grassroots effort to help low-wage workers earn enough to support their families above the poverty line, defined in 1999 as $17,029 a year for a family of four. This equates to $8.19 an hour for a full-time job and is 60% higher than the $10,700 or so a worker would earn in a year at the federal minimum wage of $5.15 an hour.

How did the movement begin?

Religious groups and labor unions started talking about living wages in the early 1990s, which led to the passage of the federal minimum in 1993. The contemporary version dates back to 1994, when Balti...
people, for a total of 2.3 million.

Do all the laws require a minimum wage of $3.19 an hour?

No, the amounts vary. The highest wage currently is in Santa Cruz, Calif., where it is $12 without health benefits or $11 with them. More than 35 ordinances require or encourage some form of health benefits.

How much does all this cost, and who's footing the bill?

The business impact has been minimal, researchers say, because the laws affect so few people and because higher wages are offset by higher productivity and lower turnover. So far, there's little evidence that living-wage laws raise taxes, although they likely would if they covered more workers.

Opponents have long argued that minimum wage laws destroy jobs. Is that true of living-wage laws?

Many economists have backed away from the argument that minimum wages lead to fewer jobs. But even those who still think so say the logic doesn't apply to living-wage laws, because they mostly target municipal workers, so taxpayers absorb any extra costs. David Neumark, a visiting Fellow at the Public Policy Institute of California and a leading minimum-wage opponent, found that when living-wage laws raise pay by 50%, say from $5.15 an hour to $7.73 an hour, poverty declines by 1%.

What's the argument against such laws?

Business groups insist that higher wages could force them to cut jobs. Opponents also fear that the laws erode their profits and could spur broader increases in the minimum wage. They are working in state legislatures to make local ordinances illegal. So far, five states have passed laws banning local minimum wage hikes, and seven others have had similar debates. After Missouri passed a ban, St. Louis approved its own living-wage ordinance, the legality of which will soon be decided in court.

Why don't living-wage advocates push for a higher federal minimum wage, which covers most of the workforce?

Because they run into less political resistance at the local level. Business groups are more powerful in Congress, where last year they blocked attempts to lift the federal minimum to $6.15 an hour. Washington lawmakers plan to debate similar legislation again soon, but living-wage advocates know they have no chance of getting the minimum pegged to the poverty line. So they chip away at the problem locally.

By Rochelle Sharpe in Boston

Social Iss
CITIES

IN DETROIT
ENGINE STARTS

The Motor City's revival may...

No doubt about it: Detroit these days is a city transformed. It has attracted $18 billion in new investment since 1994, creating thousands of jobs. The crime rate has fallen to a 30-year low, banishing the Murder City tag that dates from the 1970s. Office vacancy rates are low, and real estate values have soared. Three glitzy new casinos ring the central business district, and a domed football stadium is going up alongside Comerica Park, the sparkling new home of the Detroit Tigers. Downtown, where an abandoned department store sat empty for 18 years, cranes lift steel beams into place for the new $1.2 billion headquarters of Compuware Corp., which is moving its 6,500 office workers in from the suburbs.

But Motown's retooled engine is starting to sputter. Already, the jobless rate, which fell from 20% in 1992 to 5.4% in 1999, has shot back up to nearly 9%. As the slowing national economy threatens to stall Detroit's progress, it's becoming clear just how many obstacles remain to self-sustained growth. Public schools are still mostly failures, police and fire services remain a mess, street lights often don't work, and taxes—roughly six times as high as in neighboring communities—still deter most businesses from moving in. While other cities grew in the 1990s, Detroit's population fell by 76,000, the 2000 Census showed, slipping below 1 million for the first time since 1920. Another blow came in April, when Mayor Dennis W. Archer, who has won credit for helping to spark...

HEAVY BLOW

Mayor Archer, who helped spark the turnaround, has said he won't seek a third term.
Graduates from High School and College (in the USA)

Chart 4-2 High School Graduation Rates of 25- to 29-Year-Olds by Race and Ethnicity
High school graduation rates have vastly improved since 1940. Rates for whites and African Americans have converged, but Hispanics lag behind.

![Graph showing graduation rates over time for whites, African Americans, and Hispanics]

Note: Annual data by race are available only since 1964; dots indicate previous years with available data. Before 1992, high school graduates are defined as having completed 4 years of high school. Since 1992, high school graduates are those who have received a high school diploma.
Source: Department of Commerce (Bureau of the Census).

and ethnic gap in college graduation rates remains large. In 1940, 6.4 percent of whites aged 25-29 had completed college; by 1998, 28.4 percent had. African American and Hispanic graduation rates have improved over the same period, but they still lag far behind that of whites. Although the rate for African American and Hispanic college graduates is lower than that of whites, the gap has narrowed significantly.

Chart 4-3 College Completion Rates of 25- to 29-Year-Olds by Race and Ethnicity
Many more Americans finish college today than in 1940, but completion rates for African Americans and Hispanics remain well below that for whites.

![Graph showing college completion rates over time for whites, African Americans, and Hispanics]

Note: Annual data by race are available only since 1984; dots indicate previous years with available data. Before 1992, college graduates are defined as having completed 4 years or more of college. Since 1992, college graduates are those who have received a college degree.
Source: Department of Commerce (Bureau of the Census).

Note: A copy is in NCAR library

- Many more people now graduate from high school.
- Many more people now graduate from college.
Economic and financial indicators

Overview

America is fretting about the return of stagflation, as consumer-price inflation jumped even as the economy continued to flag. Consumer prices rose by 0.5% in May, faster than expected. This pushed up inflation to 3.6%, from 3.3% in the year to April; excluding food and energy, the rate was 2.5%. Meanwhile, industrial output fell in May for the eighth successive month, dropping to a level 2.8% lower than a year earlier.

The euro area also looked increasingly sickly. Consumer-price inflation in the year to May jumped to an eight-year high of 3.4%. The increase from 2.9% in April was bigger than the markets had expected. However, industrial production dropped in April by 0.5%, cutting the annual rate of growth to just 1.6%, the slowest for almost two years. These figures increase the risk of an industrial recession—two successive quarters of declining output—in the euro area.

The euro area’s growth difficulties remain worst in Germany. The country’s economics minister gave warning that the economy might not grow at all in the second quarter. The Kiel-based Institute of World Economics cuts its forecast for this year to 1.3%, considerably lower than the German government’s projection of 2%.

Britain is once again a two-speed economy. Domestic demand is bubbling away even as exporters wilt from the strong pound and the slowdown in world trade. Consumers have been on a shopping spree: retail sales rose by 6.4% in the year to May, but exports fell in value by 1.6% in April. The trade gap in goods and services swelled to £5.6 billion in the three months to April, the highest since the third quarter of 1989.

The Japanese stockmarket fell by 1.2%. Sentiment about the economic outlook, already gloomy, was further depressed when the Bank of Japan downgraded its assessment of the economy.

Commodities

The global slowdown is taking the sparkle out of diamonds. De Beers, which controls two-thirds of the world’s trade in uncut stones, says that sales of rough diamonds have so far been worth $2.6 billion this year—a quarter lower than in the first half of 2000. The decline in sales was strongly influenced by America, which accounts for nearly half of world demand for diamond jewellery.

Prices and wages

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*Not seasonally adjusted.

Data on more countries are available to subscribers on www.economist.com
WARM AND FUZZY WON'T SAVE PROCTOR & GAMBLE

Procter & Gamble Co. employees, particularly those in management, are breathing a sigh of relief. "Crazy Man Durk"—known to the outside world as Durk I. Jager, CEO and chairman—is out, having resigned under pressure from the board. "Gentleman John" E. Pepper, P&G's CEO until 1998, and Alan "A.G." Lafley, a man known for his people skills, are in charge. Who says nice guys finish last?

Unfortunately, the election at one of the nation's biggest packaged-goods producers is destined to be short-lived. For all his abrasive ways—and his failure, in 17 months at the helm, to bring about a real turnaround—Jager may have been the company's best hope for recovery. Without him, P&G is likely to remain entrenched in a bureaucracy with the same bottom-line problems it has struggled with for a decade.

At first blush, P&G does not look like a company on the road to recovery. Jager recently conceded that he would not fulfill his promise of a 15% growth in profits for the quarter, and P&G will fall well below target the next two quarters as well. And since January, shares have collapsed from $118 to $56.

NOT ENOUGH. Egged on by a short-term-minded Wall Street, however, P&G pulled the plug too soon on what could have been the company's turnaround. Jager had less than two years to implement massive changes in a rigidly structured company. That was clearly not enough.

While major brands such as Tide, Ivory, and Pampers may have shown only meager growth, Jager had some successes. The purchase of Iams premium dog food, for example, is looking like a hit. P&G took this $800 million private brand and began shipping it to its vast array of supermarket customers. Market share has grown; sales should hit $1 billion for the year ending in June. Says Jim Holbrook, a P&G alumn and now president of the Zipatoni Group consulting firm: "This is a high-margin, high-turn business, and Jager saw a way to take it to the mass market."

William Steele, an analyst at Banc America Securities.

To achieve this, Jager, confronting a roster of old-line, slow-growing products, became almost obsessed with new-product development. He ramped up R&D, cut in half the time it took P&G to introduce new products, and doubled the rate of launches. It took Jager's P&G 18 months instead of the typical three years to launch Swiffer, its electrostatic dust mop. The first year out, P&G sold a stunning $400 million worth.

All this required Jager to attack what is probably P&G's most serious problem: its entrenched, risk-averse culture. He torpedoed the old-fashioned international network of 144 regional managers and reorganized the company into seven global business units built around product lines. That process broke up decades-old fiefdoms and gave P&G the ability to respond more quickly and efficiently to global trends. The move was praised by customers such as Wal-Mart Stores. He also encouraged managers to leave behind the company's traditional consensus management, to be more innovative, and to take more risks.

Unfortunately for Jager, the benefits of this restructuring have Ousted CEO Durk Jager's methods weren't pretty. But he was the company's best hope for recovery

Dog food is not the only bright spot. Jager also wins praise from otherwise critical analysts for creating global identities for his brands while still allowing local execs to determine marketing tactics. The practice is showing some promise in North America. In recent months, P&G has won back market share in hair care, detergent, and toilet paper lines. "He changed the company from one that was inwardly focused on cost efficiencies to one outwardly focused on gaining global market share," says not worked their way to the bottom line yet. The investments in acquisitions, research and development, and marketing of new products all hit earnings hard. To counterbalance all the spending, plans to cut 15,000 jobs and close 10 plants were in progress. But they were not expected to produce savings until 2003. In the face of his extensive cash outlays, however, Jager made a major error by promising Wall Street double-digit earnings gains by this spring. It was the second time in his short reign
Money really does turn out not to be everything

The argument for fat pay packages to keep executives does not agree with the facts, writes Michael Becket

Senior executives need to have high pay plus regular salary increases because they have an international market for the package must be able to stand up to world comparators. So runs the case put up by the big industrial companies.

The implication is that if managers do not get fat pay packages and fail to get 16pc rises a year they will flee the country for some more comfortable niche overseas.

The United States is the obvious destination since it combines high pay and the English language, but other places are frequently invoked, from Germany to Hong Kong, from Switzerland to France.

It is a plausible argument but is not supported by facts. Even after the recent rises, American salaries are still substantially above their British equivalents, and the gap is made even wider by the cost of living there being about a third lower. So there should be a large and growing management brain drain across the Atlantic.

The should, but there is not. Ashley Summerville of the headhunter Egon Zehnder said: "I am not convinced there is an exodus of British top managers to the United States". Instead, Mr. Summerville says, big companies in the UK are much more likely to lose senior people to an entrepreneur just down the road.

That sort of defection is becoming even commoner to promising internet companies with exciting prospects and mouth-watering share options.

Mr. Summerville said: "It is an incontestable fact that Americans are paid a bell of a lot more cash." Despite that, he said, in all the years he has worked as a headhunter "I have never seen a letter saying I would like to work in America for the higher pay".

On the contrary, there seem to be more Americans in senior British positions, such as Marjorie Scardino of Pearson. That could be, Mr. Summerville said, because "Europe has more potential pots of gold, especially in areas of advanced technology such as telecommunications and mobile phones."

Kenneth MacLennan of Korn Ferry suggested the discrepancies between pay scales may not be as large as they first look because of the substantial share-option content of some packages.

Michael Curlewis of Boyden International agreed that "apart from a few computer people migrating, after the easing of American visa restrictions", the move has been more the other way: "Americans come to Britain because London is a much nicer place than Chicago."

France, for all its obvious attractions, does not seem much of a magnet either, and in France too there is a move the other way. Mr. Curlewis pointed to a flood of French businesspeople through the Channel tunnel to set up businesses. Significantly, lower social security costs and tax in the UK have produced a surge of French companies setting up in Kent, though "the executives still go home at the weekends", he said.

Mr. MacLennan said there was some two-way movement in and out of Britain, but that is more common in financial institutions, which are much more global in their organisation.

Victoria Bates of the Executive Grapevine said Silicon Valley in California remains a magnet for specialists because it is perennially short of good graduates and talented young managers. As a result, some Britons in those categories have certainly moved in the past year or so.

Mr. MacLennan agreed. "Younger people are ready to go for the compensation and the experience," he said, and they are being recruited from universities and British companies. "It is easier to move in your 20s — later the constraints get greater, with considerations such as the children's schooling." That also means managers often come back when they want to educate their children.

When top executives of great ability do change jobs "the overwhelming majority move for a feeling of making a greater impact," Mr. Summerville said. "Paying more is a blunt instrument as a way of trying to attract or retain talented managers."

At the top levels of talent other more important considerations affect candidates, Mr. Summerville said. These include the corporate culture being agreeable, opportunities for personal freedom of action, the chance of fulfilment in the job, the availability of flexible working hours and access to equity.
Elsewhere in this week's issue, the economist Robert Wade argues that global inequality is increasing faster than hitherto suspected, and that governments should respond (see page 72). Is he right?

In policymaking circles, inequality is like the subject that dares not speak its name. In recent years, egalitarianism has lost much of whatever political appeal it ever had, in the rich industrialised countries, in the developing world, (especially) in the ex-communist economies of the former Soviet Union and Central and Eastern Europe, and certainly in communist-run China. Governments and development institutions such as the World Bank and the IMF express their concerns about poverty, and frame policies intended to reduce it, but do not seem to regard inequality, as such, as worthy of much attention. The Economist, it must be admitted, has also subscribed to that point of view.

This week's invited article by Robert Wade, a professor of political economy at the London School of Economics, draws attention to some important new findings on global inequality and urges governments to start taking the matter much more seriously. Inequality matters, in Mr Wade's view, above and beyond what it implies about poverty. For one thing, it may be an indicator of global political strain: if the world's poor see the world's rich getting ever farther ahead of them, they may begin to object. "The result is a lot of unemployed and angry young people, to whom new information technologies have given the means to threaten the stability of the societies they live in and even to threaten social stability in countries of the wealthy zone."

Perhaps governments are neglecting the subject because they think that growth will reduce both poverty and inequality in due course? If so, they are wrong—or so Mr Wade argues. Studies cited in his article show that inequality has been rising, and rapidly.

What is one to make of all this? Mr Wade undoubtedly raises some interesting and important questions. But one may beg to differ with him on some things, and especially on the conclusions he draws (or invites his readers to draw).

First, one must be cautious about the data. Unfortunately, one must always be cautious about the data. The information feeding into the new calculations cited by Mr Wade is better, and certainly much more detailed, than the information used in earlier studies. But the adopted time-period is short: 1988-93, just five years. You might say that makes the reported substantial rise in inequality all the more alarming. But without longer runs of data it is hard to know whether this change is part of a well-established trend, as Mr Wade suspects, or a short-term fluctuation.

Still, take the worst case, and assume it is indeed a part of a trend. What might be driving it? Mr Wade cites four proximate causes: faster growth in rich countries than in poor; faster population growth in poor countries; stagnation in Africa, rural China and rural India; and a rapidly widening gap between urban China, on one hand, and rural China and rural India on the other. Behind these factors he conjectures that there are deeper causes, and one above all: "technological change and financial liberalisation result in a disproportionately fast increase in the number of households at the extreme rich end, without shrinking the distribution at the poor end."

But is it not something of a leap from those proximate causes to that primary underlying cause? The interesting new information that Mr Wade draws attention to does not, on the face of it, confirm that inference. At a minimum, the data are consistent with other explanations.

To most people, the really alarming new finding in Mr Wade's article is that the extent of absolute poverty in much of the world has increased. Certainly, this ought to concentrate the minds of policymakers. Most egalitarians, even, ought to find the rise in poverty much more worrying than the fact that incomes at the top have streaked away—even though, so far as inequality is concerned, both these changes are equally significant.

Does this worsening of poverty support Mr Wade's conjecture about the underlying cause—and so about the perils of globalisation? To answer this, one needs to ask, where did poverty increase and why? Apparently, it increased especially in Africa, in rural China and in rural India. It seems odd to regard such regions as victims of globalisation. On the face of it, they are rather the opposite: victims of a lack of globalisation. Their geographical and economic isolation is surely their salient characteristic. It makes better sense to think of extending the scope of globalisation—which means addressing the causes of their isolation—than to think of limiting or somehow re-engineering the processes of global growth.

Good evidence, as discussed before in this space, suggests that growth reduces poverty. There is evidence, too, that poor economies can put themselves on a development path that causes their incomes to converge with incomes in rich countries. The plight of countries, or regions within countries, that fail to get on that path is indeed a matter of the gravest concern; it would be unforgivable to ignore them—and, as Mr Wade points out, their condition may be even more desperate than had been previously supposed. It would also be wrong to sit back and hope that globalisation, left to itself, will somehow sweep them up in due course. But, having said all this, the challenge is still to engage these regions in economic growth and technological progress, not to find some way of protecting them from it.

None of this addresses another of Mr Wade's arguments: that inequality is a bad thing in itself, regardless of the extent of poverty. Many people would agree with that—though it has some strange implications. One is that you could regard a country with more equality as a greater success than another, even if the egalitarian country had not merely lower incomes on average, but also more people in absolute poverty. Mr Wade's points about inequality and social stress are well taken. Yet pulling up the poor still seems a nobler calling than pulling down the rich.
Sharing the pain

CEO DAVID LORD STOOD on our conference stage last week, all 6 feet 7 inches of him projecting the still-aching heartbreak of Toymart.com's sudden death only one month ago. By the time the 35-year-old executive wrapped up the story about the failure of the highly lauded dot-com (see this week's News section), there wasn't a dry eye in the room at Computerworld's Premier 100 IT Leaders Conference.

“I wanted to run up there and give him a hug,” one CIO said afterward. “I could feel everything the guy went through.”

A fatally flawed partnership with Walt Disney took only nine months to doom an online business that had everything going for it. Toymart's e-commerce infrastructure was state-of-the-art. Its 270 employees were passionately attentive to customers, and the site reflected the company's overall quality.

So what were Toymart's biggest mistakes? Picking the wrong partner, and hobbling itself in the race against time. A nimble, small company tied its fate to a slow-moving, hierarchical behemoth. Decisions that once took a day to make now took a month or more. Disney's Internet strategy was in a confused state of flux, and Toymart was left out of the loop. With too little revenue and too few customers, the tiny retailer was outgunned in its own competitive market. So an impatient corporate parent shot it down.

Within 24 hours, 700 customers had e-mailed Lord to pour out their sympathy. “Toymart set a shining example of what e-business should be,” one customer wrote. “I feel like my dog died,” another lamented. Watching the Lord of the Toys on stage last week, we knew how they felt. Here was an e-business doing all the right stuff: building value and caring about customers. It wasn't just another bunch of opportunists playing Millionaire IPO Poker. No wonder 90% of the Toymarters have already found new jobs.

What hit home with listeners was Lord's raw honesty about Toymart's missteps. In a culture that celebrates success to excess, it's rare to find someone brave enough to talk about failure, let alone generous enough to share the painful lessons learned. We thank you for that, David, and wish you the best.
WHICH IS THE REAL Mccoy?

It would be a shame if “The mess at Bank One” (Finance, May 1), on John B. McCoy’s final days as CEO, were to be all that’s said about the man. For instance, it was Mr. McCoy’s sterling reputation that made possible the 1994 enactment of the so-called Riegle-Neal Interstate Banking & Branching Efficiency Act. A number of bankers, notably Hugh L. McColl Jr., had been pressing Congress unsuccessfully for years to obtain enactment. It was not until McCoy agreed in mid-1993 to become chairman of a task force on interstate banking at the Bankers Roundtable that the legislation got legs.

Throughout the succeeding 15 months or so, McCoy’s leadership within the community of large-bank CEOs kept the issue on track. He defused efforts from within the giant American Bankers Assn. to derail the legislation, and he authorized negotiations with consumer representatives that were essential for the bill to become law. None of this would have been possible had not McCoy stood so high in the estimation of his peers. McCoy was the key cog in a many-cogged machine that ultimately brought the public the benefits—for the first time in the nation’s history—of true interstate banking. Characteristically, he neither sought nor received credit for his role.

John S. Rippey
Montross, Va.

John B. McCoy’s exit from Bank One has left new CEO James Dimon in a jam. Cutting costs may make things better for shareholders, but truth is, there’s not much left to cut.

At several local Bank One branches in Boulder County (Colo.), McCoy’s legacy—and his emphasis on short-term gains—has ended with the evaporation of vital links with local longtimers. The elimination of local boards of directors, drastic reductions in local advertising and promotion budgets, six-month rotation/promotion/removal/resignation of local branch managers, reduced staffing and community presence, and alienation of local businesses via extraneous fees leave Bank One in one big fix.

At the corporate level, fractious boards of directors, marginally profitable credit-card units, bulk operations, and oversize management committees are nothing compared with the respect, confidence, and trust now lacking on Main Street for Bank One.

Doug Conarroe
Conarroe Cos.
Lafayette, Colo.

As a trust officer in a bank in Odessa, Tex., I got to see a lot of John McCoy in 1990, when Bank One bought the assets of the old MBank Holding Co. It was apparent then that McCoy was CEO of Bank One because he had the good luck to have a father and grandfather who preceded him in that position. It was only a matter of time until a crisis beyond his ability to resolve proved that to the world at large. That has now happened.

The purchase of MBank assets, which included the personnel of about 20 banks in Texas, revealed another component of the culture of Bank One. While McCoy personally and publicly committed Bank One to honor the many years of experience MBank personnel had accumulated prior to the acquisition, when it came to allowing those years to be used for purposes that cost Bank One money—such as monthly pension payments upon retirement—the bank reneged. For example, someone retiring with 20 years total bank experience, but only two years with Bank One, would get a pension based on two years’ service, not the 20 years promised. That is the real “corporate soul” of the old Bank One.

Edwin J. Stuart
Greenville, Tenn.

May 29, 2000
COMMENTARY
By Steve Rosenbush

AT&T CAN'T BUY ITS WAY OUT OF THIS MESS

The jig is up for AT&T. When reports surfaced on Aug. 18 that the giant phone carrier might merge with behemoth British Telecommunications, its stock barely budged. Two years ago, speculation over that sort of historic transatlantic tie-up would have sparked a sensation. Now, AT&T Chief Executive C. Michael Armstrong has played the acquisition card one too many times. And no deal in the world may be big enough to pump up his company's floundering shares, at $31 apiece on Aug. 23, down 38% from the beginning of the year.

It took a long time. But after three years, a total of $120 billion in announced deals, and a wireless tracking stock that's been a flop, Wall Street seems to have concluded that Armstrong's effort at financial engineering has been a failure. The strategy has left AT&T heavily in debt, with a conglomerate of several poorly run businesses, almost none of which is living up to either sales or profit expectations. Things have become so bad that meeting its annual interest payments may require the telecommunications giant to cut back on needed investment to struggling units.

Here's how AT&T stumbled: First, it paid far too much for cable operators Tele-Communications Inc. and MediaOne. "The prices were way above historical benchmarks," says analyst Bruce Roberts of Dresdner Kleinwort Benson. Then, the deals failed to boost growth as fast as expected. In response, management imposed fierce cost cuts on its more established units that sell voice and data services to consumers and businesses, further restricting their growth. This year, that forced AT&T to lower its earnings targets twice.

Nervous Board. Now, even AT&T's notoriously complacent board is finally getting nervous. The company had only $7 billion in debt in 1998—it had one of the strongest balance sheets in Corporate America. Today, debt stands at $57 billion. What's more, AT&T needs to shell out more cash if its new cable units are to compete. It still must upgrade its networks for cable telephone service, high-speed Internet access, and digital TV. That could cost as much as $1.8 billion.

So what does AT&T fall back on for cash and growth? Certainly not long distance. As the giant local phone companies enter the long-distance market, AT&T has been losing customers to rivals Verizon Communications and SBC Communications.

Meanwhile, besides hits from competition, there's been some very sloppy execution at AT&T's core voice and data units, which still account for about $45 billion of the company's $52 billion in revenue. Robert Amunziata, the former head of the Business Services unit, and H. Eugene Lockhart, the former head of the Consumer Services unit, both advised Armstrong to hire more salespeople and make other investments. He didn't listen. Instead, both men ended up leaving, along with other highly regarded managers. And now performance is deteriorating. Growth forecasts for Business Services have been lowered twice this year, to 6% from an original goal of 9% to 11%. And the consumer unit declined 7.2% last quarter, while WorldCom's grew 8% and Sprint's grew as much as 5%, according to analyst estimates. Meanwhile, Armstrong counters that the company is hitting its targets for cable telephony and high-speed Internet access.

Ultimately, it's all very much a case of déjà vu. Just as in 1996, when Armstrong was first brought in to head up a company that floundered under the reins of CEO Robert Allen, AT&T must find a way to get itself—and particularly its core businesses—growing again. More financial engineering is not the answer.

Rosenbush covers AT&T for BUSINESS WEEK in New York.