Book One

The Case for Greed

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Greed and Good: Understanding and Overcoming the Inequality that Limits Our Lives
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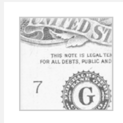

Why We 'Need' Inequality

Each and every spring, at graduation ceremonies across the United States, many hundreds, even thousands, of commencement speakers deliver noble calls to arms. Do good by others, the speakers urge graduates, give back to your communities.

Few commencement speakers ever stray from these earnestly virtuous themes — and none of them ever advise the opposite course. None of them urge graduates to go forth out into the world, behave selfishly, and get rich. Yet out there in the real world where graduates venture, we celebrate those who have become fantastically rich, those never too tired to grasp for more. We buy their books. We elect them to high office. We envy their success, and, perhaps most disturbingly, we dare not imagine a society without them.

A century ago, even a half-century ago, we did not fawn so. What changed? What made avarice attractive? How did celebrating wealth and the wealthy become so socially respectable? Give credit to the apologists for greed. They have made a cogent, powerful case. They have a seductively simple story to tell and they tell it well. Their basic storyline now shapes how we Americans see the world: Without rich people striving to become richer — without everyone else striving to become rich — progress would cease and civilization, as we know it, would simply collapse.

So argue today's most distinguished defenders of great fortunes, gentlemen like P. George Benson, the dean of the business school at the University of Georgia.

"A natural product of the wealth creation process of our capitalistic system is unequal incomes and unequal net worths," Dean Benson posited in 2001. "Our competitive private sector rewards individuals differently according to their talent and productivity. Some do well, some not so well. A few become very wealthy."[1]

Their wealth, added Benson, enriches us all.

"Inequality of results is the incentive for creating the wealth that is necessary for a civilized society," he explained. "It provides the motivation for all of us to excel at whatever our business is. And in the process of excelling, we cure diseases, build world-renowned educational institutions, invent technologies that improve the quality of our lives, produce enough food to feed the hungry, and create artistic masterpieces that inspire and entertain."

We will forever prosper, concluded Dean Benson, so long as we pursue wealth and honor those who pursue most successfully.

"So the next time you hear someone bashing the wealthy," concluded the good dean, "remember the wealthy are, have been, and always will be an integral part of the incentive structure that drives our economy and our American way of life."

Behind these stirring sentences sit three basic ideas that drive the case for greed.

The first: We need people to be greedy, to want to become fabulously wealthy. Greed makes for a wonderful incentive. Without a shot at becoming wealthly, people would simply laze their lives away.

The second: Those who do achieve wealth fully deserve their good fortune. If the greedy were to be denied their just desserts for all the striving that they do, who would ever continue striving to succeed?

The third: We all benefit when some of us become far wealthier than others, when the greedy fulfill their ambitions to become rich.

We will examine, in the pages ahead, each of these claims. We will explore the reasonableness of greed as an incentive. We will consider the greedy as deserving. We will examine, finally, the greedy as benefactors to society at large.

In this endeavor, we will focus considerable attention on America's corporate CEOs, that small exclusive group that has come to personify greed and grasping. Corporate chief executives are not, to be sure, the only greedy people in America. But corporate CEOs manage the companies that dominate the world. Their decisions impact our lives, and today, more than ever before, pure simple greed seems to drive these decisions. That's how it should be, insist the apologists for our current corporate order. We shall see.

GREED AS AN INCENTIVE

NO SOCIETY CAN ADVANCE, inequality's defenders have always asserted, without incentives. If we want talented people to do great things, these defenders submit, we need to offer equally great rewards. Great rewards prompt great deeds. Societies that choose to limit rewards, say by taking steps that make accumulating wealth more difficult, reduce the incentive to achieve. These societies, the argument goes, will stagnate. The most talented within them will simply not offer all they have to give.

Any society that heaps rewards on the talented, the argument continues, will certainly end up with some people who hold far more wealth than others. But these differences in wealth can become powerful and positive incentives in their own right. They send the message that those without wealth need to shape up and work harder. The wider the disparities in wealth, the more powerful the message.[1] Imbalances of wealth and income, in short, grease America's economic gears. Eliminate these imbalances, apologists for inequality warn, and you eliminate the incentives that keep us going and growing.

These pages will certainly not challenge the notion that incentives can keep us on our toes. As individuals, we do need incentives. We use them every day. We offer our kids the opportunity to stay up an extra half-hour if they'll eat all their broccoli. That half-hour amounts to an incentive. We give our dogs treats when they obey our entreaties to sit and fetch. We scan newspapers for sales, the incentives that merchants offer us to part with our dollars. Incentives work. They change behavior. We couldn't get by without them.

But some incentives, we know from experience, work better than others. We might offer a lollipop to get a three-year-old to sit and listen. That lollipop would likely make no impact whatsoever on a refrigerator repairman. Some incentives, we also understand, might be inappropriate because they make too much of an impact. We do not, for instance, reward our canines with foot-long franks. Our pooches, if so rewarded, might learn how to sit and fetch quite nicely. But they would also become dangerously obese. So we fill our fanny packs with bite-sized biscuits. These make appropriate training incentives. Foot-long franks do not. In a different context, of course, hot dogs could serve as a perfectly appropriate incentive: To encourage ten-year-olds to attend a practice, a Little League coach might reasonably promise a hot dog cookout after the workout.

With incentives, in other words, context is everything.

In America's executive suites, over recent years, incentives have been everything. Corporate America has been engaged, in fact, in human history's most costly incentive experiment ever. This experiment has, since the early 1980s, awarded America's top corporate executives over half a trillion dollars.[2] Has this enormous transfer of treasure — perhaps the single biggest reason why wealth in the United States has concentrated so intensely — served as a reasonable incentive? Are the lavish rewards that corporate boards continue to bestow upon executives legitimate? That depends.

We need to look at the context.

MOVERS AND SHAKERS IN CORPORATE AMERICA, and those who write about them, have always spent a great deal of time thinking about incentives. Large, modern enterprises, by their very nature, raise questions about incentives that small enterprises simply do not face.

Consider, for example, America's classic small enterprise, the mom-and-pop shop. In a corner candy store, the incentives never blur. Mom and pop work for themselves. If they work hard, and if their enterprise prospers, they know they'll prosper, too. But most of us don't work for ourselves. We work in large enterprises. Our paychecks come every two weeks, even when we're sick or on vacation. If a mom-and-pop has a bad day, mom and pop might not see any income at all. If our enterprise has a bad day, our paychecks still come. We are employees, not owners.

CEOs, in this broad sense, sit in the same boat as the newest corporate mailroom hire. CEOs don't own the companies where they work. They draw paychecks, just like any other employee. This employment relationship has always troubled scholars who study how businesses operate. If executives are mere employees and if executives can pocket paychecks whether their enterprises are doing superbly or just getting by, why would any sane person in an executive slot put out the extra effort needed to create a superb enterprise? Clearly, scholars have concluded, we have a problem here. Moms and pops will naturally work hard because what they get depends on how hard and how smart they work. Executives have no such natural incentive. How then can enterprises go about getting executives to exert themselves and truly do their best?

The answer, a generation ago, seemed obvious. How can enterprises keep their executives performing at the highest levels? Keep them happy! Enterprises succeed, argued analysts who advocated a "human resources" approach, when they find and hang onto talented executives. Wise enterprises, consequently, should do whatever they can to keep their talented executives content. Above all, they should pay well.

This human resources perspective suited executives, predictably enough, just fine. They appreciated any approach that stressed the need to keep executives smiling.[3] But other business analysts challenged this keep-them-happy perspective. Forget about keeping executives happy, these skeptics advised.

Keep an eye on them instead. Executives, after all, do not own the corporations they manage. They function merely as "agents" for the shareholders who do. As agents, executives do not necessarily share the same interests as shareholders. They have their own agendas, and that reality creates an ever-present tension between executives and shareholders.[4] How can this tension, this "agency problem," be overcome? Companies must introduce incentives, analysts known as "agency theorists" advised, that tie an executive's self-interest directly to the interests of the executive's firm. Sure, they argued, executives should be paid well — but only if the enterprises they manage are doing well.

After World War II, and into the early 1970s, with American goods dominating world markets and corporate profits holding up quite nicely, the hard-boiled cynicism of the agency theorists seemed woefully shrill. Executives were delivering. So why not just pay them well and keep them happy? Why rock the boat? Few corporate boards of directors did. America's top business executives would enter the 1970s the most generously paid in the world. The critics could only mumble from the sidelines. But the mumblers, in the 1970s, would find an audience. Throughout the decade, in industry after industry, American corporations were losing market share to foreign competitors. Profits were dipping, share prices stagnating. By 1980, many investors had come to agree, "a great many American companies were in a sorry state and in need of serious restructuring."[5]

America's executives, for their part, didn't seem to be up to that "serious restructuring" task. They had adapted themselves, Wall Street suspected, "to the special habits of working inside large, stable bureaucratic structures." They refused to "take big risks or initiate major changes." They acted like stodgy bureaucrats.[6] And corporate executives were acting like stodgy bureaucrats, critics hastened to add, because they were paid like bureaucrats. Executives were cashing healthy paychecks whether their companies were soaring or sinking. Corporate America had given top executives no real incentive to perform.[7] The agency theorists, big-time investors came to believe, had been right all along. Executives would not work to maximize corporate earnings until their pay — and their future — depended on the performance of their company.

BY THE EARLY 1980S, America's biggest investors had become absolutely convinced that America's corporations were being atrociously mismanaged, so convinced that a new breed of entrepreneurs would be able to begin making billions off that certainty.

These new entrepreneurs — "bright, insolent, cocksure individuals responsible only to their financial backers" — would soon become celebrated as "corporate raiders."[8] America's top executives, these dashing raiders pronounced, were not doing nearly enough to "maximize shareholder value." Corporate America needed to be completely restructured, under new management totally committed to making money for shareholders. The raiders, naturally, proudly presented themselves as just the ace restructurers America needed. They began their ambitious corporate crusade, in the early 1980s, by buying modest interests in targeted companies, then threatening full takeovers. The targeted companies would either panic and buy out the raider's modest stake — at a price much higher than the raider originally paid — or be swallowed up by the raider. This "greenmail" would evolve into a full-fledged takeover industry, almost all of it financed by bankers and bond traders anxious for a piece of the lucrative restructuring action. Corporate raiders soon found themselves controlling, as owners, a significant chunk of America's corporate assets.

Once in control, these raiders delivered on their promises. They shook up business as usual, mostly by breaking their newly purchased companies up into pieces. Some pieces they sold. Some they kept. In the pieces they kept, they ordered all operations managed to maximize cash flow, by any means necessary, a logical step since the raiders needed cash to pay back their debts to banks and bondholders. After a few years, raiders would typically place their "restructured" pieces back on the market and sell them off, usually at top dollar, making huge personal fortunes in the process.

Mainstream corporate America, dazzled by this derring-do, would adopt the bold raider mantra — "maximize shareholder value" — in remarkably quick order. In America's boardrooms, everyone now seemed hot to trot down the restructuring road, to gobble up companies, break them apart, and swap the pieces. From 1982 through 1988, American business would see over ten thousand mergers and acquisitions, over $1 trillion worth of wheeling-and-dealing.

The corporate raiders would actually stimulate, directly, only a small portion of these restructuring transactions. Their real impact would be indirect. Corporate decision makers, in the face of the raider challenge, simply decided to do their own "restructuring." This self-restructuring, notes Wall Street veteran Roy Smith, who watched the action as an investment banker, almost always followed the same script. A corporation would begin by "selling off divisions and other assets that no longer fit into a highly focused, back-to-basics strategy." The new "lean and mean" enterprise that remained would then emphasize operations that generated quick cash. Finally, to guarantee that everything went as intended, the restructured enterprise would "provide substantial incentives to management to work their butts off to make all this happen."

What sort of incentives? Incentives for maximizing shareholder value. Executives, the new conventional wisdom held, would only maximize that value if they saw themselves, first and foremost, as shareholders themselves, as part of ownership, not just the hired help.[9] Incentives in corporate America would now link executive rewards, directly, to share price. How shares fared in market trading would determine executive compensation. And how exactly would this compensation be tied to stock performance? Through stock options.

Stock options, on paper, merely give whoever receives them the right to buy shares of stock, at some specific time in the future, at some specific price. In practice, an option can be much more than a right. An option can be a chance to make a killing, by buying stock "at a cut-rate price" and selling at a premium profit.[10]

Imagine yourself an executive. Shares of your company's stock are currently trading at $50. You are granted the option to buy, four years from today, one hundred thousand of these shares at this same $50 per share. You do some quick calculations. If your company's share price rises to $100 over the next four years, you could "exercise" your option to buy those one hundred thousand shares at $50, then immediately sell them, on the open market, at their $100 value. You would make a profit of $50 per share, or $5 million. You smile. This option business could be a hugely good deal.

A good deal, investors agreed, for shareholders, too. Executives, with option sugarplums dancing before their eyes, would surely move heaven and earth to "maximize shareholder value." Who could doubt that? Who could doubt that corporate America had solved, once and for all, "the agency problem"?

STOCK OPTIONS, BY THE 1980S, had actually already become a familiar corporate fixture. Historians, in fact, have traced option incentives back to the 1920s.[11] But options remained little more than curiosities until 1950, when Congress "liberalized" how options could be treated for tax purposes.[12] Under the new law, and a subsequent ruling by the national board that then set accounting standards, companies could count options as deductions for tax purposes, yet not have to count options as expenses against earnings.[13] This accounting sleight-of-hand made a dollar's worth of options more attractive than a dollar's worth of straight salary, since any dollars shelled out for salaries had to be counted before profits could be figured. Options carried no such baggage and came somewhat "into vogue," after 1950, as an executive incentive.[14] Still, throughout the 1950s and 1960s, options remained a distinctly second-tier incentive. Corporate boards granted options "sparingly" and in modest numbers.[15]

This second-tier status would begin to fade in the 1970s, particularly in the emerging new electronics industry. Influentials in electronics had latched onto options early on. The founders of Intel, for instance, stocked their new company with talent by offering options, not higher salaries, to the executives and engineers they wanted to recruit from other firms. In 1971, to lure one top marketing executive, Intel offered options for twenty thousand shares, about 1 percent of the company. Intel gave that executive the right to buy the shares at $5 apiece. Later that same year, Intel's stock went public at $23.50.[16]

Options could be equally rewarding in more mainstream business circles. In 1978, Lee Iacocca, America's first modern celebrity CEO, humbly accepted from his new employer, the troubled Chrysler, the option to buy four hundred thousand company shares at just over $11 a share.[17] Iacocca would later turn his options into a $42 million personal payday.[18] But most top executives, unlike Iacocca, would show little interest in options in the 1970s, and for good reason. Options only pay off when share prices are rising. But share prices had stopped rising in the early 1970s, and the subsequent bear market lasted the entire decade. In a bear market, executives argued, stock options no longer make for effective incentives. In a bear market, the argument went, executives could break their backs, do fantastic work, and still not see any significant upward tick in their company's share price. Corporate boards obligingly agreed. They would, throughout the 1970s and into the 1980s, offer executives a variety of incentives not linked to share prices.[19]

These incentives often blossomed one on top of the other. Warner Communications, for instance, bestowed seven different long-term incentive plans on its CEO, Steve Ross, from 1973 through 1989. Among the incentives: an annual bonus that handed Ross a fixed percentage of the company's after-tax profits, as much as $4.2 million a year.[20] In all, the "prince of pay," as Ross was dubbed by one compensation analyst, took home about $275 million from 1973 through 1989, a $16 million annual average.[21]

IN THE 1980S, THE PRINCE OF PAY would have plenty of amply compensated company. CEO pay overall jumped 212 percent over the decade, at the same time corporate profits were rising only 78 percent.[22] To press and investing public alike, that seemed utterly ghastly. Something needed to be done. Executives had to be held more accountable, and that accountability could be achieved, critics asserted, only if stock option incentives finally became, once and for all, the dominant centerpiece of executive compensation.

This option drumbeat would intensify as the 1990s began, and no one would pound away any harder than America's "institutional investors," the pension funds, endowments, and other entities with huge conglomerations of cash that need to be invested.[23] These institutional investors had good reason to worry about executive pay and performance. They often owned such large stakes in individual companies that they couldn't afford to simply sell off their shares in an underperforming company, as a typical unhappy investor might. Any big sell-off on their part might send the sinking price of an underperformer's stock sinking even faster. Institutional investors, in effect, had no choice but to hold their huge stakes in poorly performing companies and try to get the poor performers to shape up. Stock options, these investors came to believe, might just be the incentive needed to light a fire under an underperforming management team.[24]

Options also held all sorts of attractions for corporate directors. For starters, option awards could be easily justified, from a public relations perspective. By granting options, corporate boards could reward executives without having to take flak for shelling out lavishly high salaries and bonuses.[25] This flak had hit hard against Reebok in 1988, a year company earnings fell, after the athletic shoemaker awarded CEO Paul Fireman an $11.1 million bonus. In 1989, Fireman's bonus soared even higher, to $14.2 million, prompting still more negative publicity. In 1990, Reebok's directors finally wised up. They renegotiated Fireman's incentives and limited his bonus to $1 million per year. Fireman wouldn't mind. Reebok stuffed his pockets with a 2.5 million-share stock option grant.[26]

For Reebok, and every other top company, options neatly shifted the responsibility for executive pay excess from corporate boards — and the individuals who sat on them — to the stock market. If executives do well by options, corporate boards could reasonably argue, their good fortune merely reflects the market's impartial judgment. The more highly the market values an executive's performance, the higher the executive's eventual option payoff will be, and vice versa, as Sprint would later take pains to emphasize after critics questioned its executives' high option earnings. "The less they make the stock price rise," Sprint explained, "the less they get paid."[27] What could be fairer?

Option grants still carried useful accounting magic, too. They amounted to "free money."[28] Companies could grant options to executives right and left, not record the options as expenses that count against profits, and end up paying less in taxes, because options, once cashed in by executives, became tax-deductible expenses for the companies that granted them. By the mid 1990s, such deductions were "chopping billions off corporate tax bills." In one year alone, this tax bonanza saved Microsoft $352 million in taxes, Cisco $198 million, and PepsiCo $145 million.[29] Stock options, one analysis concluded, "let companies have their cake, eat it too, and get a second helping."[30]

A few lonely business voices did dare to speak out against this voodoo accounting.

"If options aren't a form of compensation, what are they?" investor guru Warren Buffet protested. "If compensation isn't an expense, what is it? And if expenses shouldn't go into the calculation of earnings, where in the world should they go?"[31]

Corporate boards had little interest in Buffet's quibbles. But they did pay attention, in 1993, when the Financial Accounting Standards Board, the accounting industry's national rulemaking body, tried to demystify the option magic act. The board proposed that options "be charged against earnings as a compensation expense." Outraged corporate leaders immediately "protested en masse," claiming that the board's change would send corporate profits, stock prices, and the nation's economy into a cataclysmic tailspin.[32]

The standards board chairman, Dennis Beresford, did his best to defend his agency. In one particularly "heated" discussion aboard a corporate jet, Beresford "scoffed at the doomsday arguments" against the Board's option stance. The executives Beresford was debating, the *Wall Street Journal* reported, then "invited him to exit the craft — at 20,000 feet."[33] The standards board would eventually agree, under duress, "to exempt the cost of stock options from being reported as an expense."[34] Options would keep their magic.

By the early 1990s, top executives, no less than corporate boards themselves, had fully fallen under the option spell. Corporate executives, the "underperformers" that investors wanted option grants to "shape up," were now enthusiastically willing to swallow any option medicine investors wanted swallowed. The 1970s bear market that had soured executives on options had ended. Share prices, in the 1980s, were rising again.

But something else changed in the 1980s as well. Executives suddenly realized they were missing out on the real money to be made in America's booming economy. Top executives like Steve Ross might indeed be doing quite well. But Ross took seventeen years to cart home his $275 million from Warner Communications. Michael Milken, the junk bond king, cleared twice that, $550 million, in just one year.[35]

All the real money, top corporate executives saw clearly, was going to the wheelers and dealers, clever operators like former Treasury Secretary William Simon, who bought Gibson Greeting in 1982, with other people's money, and then cleared a quarter-billion personal profit on an "initial public offering" — an IPO — of the company's stock.[36]

Everybody on Wall Street, simply everybody, seemed to be making multimillions wheeling and dealing. On the biggest "leveraged buyouts," or LBOs as the insiders called them, just the transaction fees alone were enough to generate fortunes. In one classic mid-1980s buyout deal, involving Revlon cosmetics, lawyers and investment bankers walked off with $110 million in fees.[37]

These multimillions made an enormous impact on corporate CEOs. Their investment banker advisors were making fortunes that put their own executive bonus plans to shame.

"Once executives realized what their advisers were making," notes Charles Morris, an investment banker who watched the frenzy from a front-row seat, "they insisted on a share of the pie."[38]

But to get that share, executives first needed to get equity — an ownership stake — in their companies. Stock options could give them that equity stake.

"CEOs learned two things from LBOs," as New York corporate lawyer Dick Beattie would explain to the *Wall Street Journal*. "First, the way to build significant wealth was through equity ownership, not salary and bonuses, and second, you didn't need to do an LBO to build equity: You could give yourself options."[39]

Technically, of course, executives couldn't give themselves options. Only corporate boards of directors could bestow options upon executives — but these corporate boards now had absolutely no reason not to. Their critics, on the one hand, were demanding options as a "reform" that would keep executives accountable. Their executives, on the other hand, now saw options as a risk-free ride to windfall glory. For corporate boards, in short, options had become the ultimate no-lose proposition. Reformers demanded them. Executives welcomed them. Accountants winked at them. Uncle Sam blessed them with favorable tax treatment. Options seemed to please everybody.

By the mid 1990s, in nearly every important industry, most American top executive pay would be coming from stock options, not salaries and bonuses. In 1980, stock option grants represented less than 20 percent of total CEO pay.

By 1997, CEOs at the nation's top two hundred firms were taking home 55 percent of their pay from options.[40] Three years later, in 2000, that share of top executive pay from stock options had jumped to nearly 75 percent[41] — and sometimes much more. In 1999, America Online CEO Steve Case earned $575,000 in annual salary, a bonus worth $750,000, and $115.5 million by "exercising" — cashing out — his options.[42]

For corporate America's top executives, observed the *Wall Street Journal*, stock options had become "a virtual cash machine." In 1997, top executives at the 350 firms tracked by the *Journal* cashed in $1.02 billion in option gains — and carried in their pockets unexercised options worth $7.2 billion more.[43] A year later, Compaq Computer CEO Eckhard Pfeiffer found himself sitting on unexercised options valued at $410.4 million.[44] In 2000, the nation's biggest stash of unexercised options belonged to Oracle CEO Larry Ellison. He ended the year sitting on options valued at $3.4 billion. Eight other CEOs that same year could boast stashes worth at least half a billion dollars.[45]

Some of these billions in potential personal profit, to be sure, did evaporate early in the new millennium, when the stock market nosedived. But relatively few big-time CEOs would end up significantly stiffed. Most had cashed out option windfalls regularly throughout the 1990s. On average, top executives gained $2.9 million each exercising options in 1995, $8 million in 1999.[46] And some top execs, most notably Walt Disney CEO Michael Eisner, did spectacularly better. In 1993, option incentives pushed Eisner's total compensation to over $200 million, a staggering sum *Business Week* called the most any CEO "has made in a single year — or probably in an entire career in the history of American business." Eisner's $203 million take-home added up to $78,081 an hour or "more than a half-million dollars a day, every day, for an entire year."[47]

Four years later, Eisner would again make headlines. On December 3, 1997, he registered the single "biggest payday for an executive in history" by exercising options for 7.3 million shares of Disney stock. Eisner's incentive agreement gave him the right to buy those shares for $130 million. On that December day, the shares were actually worth $695 million. By exercising his options, Eisner cleared a $565 million personal profit.[48]

Executives from earlier eras could barely recognize this new business landscape.

"I have a difficult time relating to the compensation today," Donald E. Petersen, the former chairman of Ford Motor Co. told reporters in 1999, "and I've really only been out of the full-time part nine years."[49]

Not everyone, of course, was sharing in corporate America's compensation largesse. In 1999, the same year America Online's Steve Case cleared $116 million, three of the many individuals who had helped AOL become the nation's most popular Internet gateway filed suit against Case's cyberspace money-machine. The three had been AOL chat room "volunteers." In exchange for monitoring AOL's chats, the volunteers had received free Internet access, but no compensation, and that, their lawsuit charged, violated labor law, since

AOL treated the "volunteers" as employees. AOL both gave them assignments and required them to work a minimum number of hours every week.[50]

This lawsuit against AOL would draw little media attention — or sympathy. Yes, Steve Case and his fellow executives were raking in dollars by the tens of millions. Yes, not everyone connected with AOL was sharing in the dollar deluge. But didn't those ungrateful volunteers understand that the system was working just as intended. America Online, business journalists gushed, demonstrated just how marvelous an incentive options could be. Early on in their entrepreneurial journey, Steve Case and his right-hand man, company chairman James Kimsey, had each "negotiated tens of thousands of stock options" from the private lenders who bankrolled their new venture. The options gave them the right to purchase AOL shares "for prices ranging from 50 cents to $3.50 each," a nice right to have once the shares soared past $50 dollars a share. And credit that soaring, the *Washington Business Journal* declared, to options. Stock options gave Case and Kimsey "a powerful incentive to maximize share price."[51]

With stock options, corporate America had an incentive that truly seemed to work. Year after year, corporate America would keep working it.

"In the war for executive talent," enthused compensation consultant Ira Kay of Watson Wyatt, "the bullets are stock options, and there's plenty of ammo."[52]

With all that firepower on the loose, some less enthused observers did wonder whether corporations might be shooting themselves in the foot. Might nine-digit payoffs for executives be a tad excessive? Not to worry, advised option advocates. Talented executives, they insisted, "can often add so much value to a company that their outlandish pay, in the grand scheme of things, amounts to a small tip."[53] These small tips, business analysts declared, were solving corporate America's longstanding "agency" problem. Thanks to option incentives, executives were finally thinking like shareholders, not hired help.[54] "CEO pay is aligned with company performance more closely today than ever before," crowed *Chief Executive* magazine.[55] "A bigger percentage of CEO compensation is coming from stock and stock options," cheered Scott Page, a top executive headhunter. That's "good for Americans," he added, and "good for American business."[56]

THAT AMERICAN BUSINESS WAS DOING WELL certainly seemed indisputable in the 1990s. By century's end, shareholder value had been "maximized" to a degree that no bullish prognosticator would have ever dared predict back in the early 1980s. At the start of that decade, about five thousand companies had their stock publicly traded on Wall Street.[57] The shares of these companies were worth a combined $1.3 trillion. By the end of 1999, about nine thousand companies were trading on Wall Street. Their combined share value: an amazing $16.7 trillion.[58]

But some observers, as the 1990s moved along, found their attention grabbed by other, more troubling sets of statistics. Companies were certainly doing well. But executives continued to be doing even better. In 1996, *Business*

Week pointed out, corporate profits increased a healthy 11 percent and share prices an even healthier 23 percent. But CEO pay gains for the year — up 54 percent — "far outstripped" both profits and shareholder returns.[59] In 1998, the *New York Times* commissioned a survey that compared the gains registered by shareholders with the compensation of top executives. Between 1993 and 1997, the survey found, shareholders in large firms saw their average annual return jump 19 percent. The chief executives at those same firms saw their annual pay leap 38 percent, twice the shareholder gain.[60] The *Wall Street Journal* conducted a similar analysis on 1999 executive pay and found a similar story. Median shareholder return, down 3.9 percent. CEO compensation, up 23.5 percent.[61]

What was going on here? Option incentives were supposed to align the interests — and rewards — of executives and shareholders. In an "aligned" environment, if share prices were rising, executives and shareholders would prosper together, or so the theory went. But if options had indeed "aligned" the interests of executives and shareholders, how could rewards for executives be rising so much faster than rewards for shareholders?

Simple arithmetic could supply some answers. Executives, by the mid 1990s, were routinely receiving such large grants of options that only a small tick up in share price could trigger a mammoth windfall. Suppose, for instance, you were an executive fortunate enough to have been granted the option to buy 10 million shares at $80 each. If your company's share rose just $2 annually, a modest increase of 2.5 percent, you would stand to make $20 million for every year the share price rose this meager $2.[62]

Critical observers also pointed out another reason why executive pay was rising so steeply. Executive pay reformers had originally expected that their cherished stock options would essentially *replace* more traditional executive incentives. That didn't happen. The new waves of stock option grants were simply layered on *top* of the salary, bonuses, and other forms of compensation executives were already receiving. In effect, executives simply gained a new revenue stream. This new stream, coupled with the old streams, virtually guaranteed that executive pay would far outpace shareholder return.

Some companies, to be sure, were so committed to option magic that they did abandon more traditional executive revenue streams. In 1998, for instance, Steve Jobs, the once exiled founder of Apple Computer, came back to the company as interim CEO for a token $1 annual salary. In January 2000, Apple granted Jobs 20 million options to take the company's CEO reins on a permanent basis. The options would be worth $1.39 billion if Apple's shares increased 10 percent a year over the decade ahead. Unfortunately for Apple, this bold stock option incentive produced no surge in the company's share price — and no great displays of executive aptitude on Jobs' part either. Apple shares, worth over $43 when Jobs became CEO, sank below $20 over the next fifteen months.[63]

Industry observers blamed that decline, in part, on the "Cube," an eight-inch-square computer that Apple expected would fly off store shelves after its year 2000 release. But the Cube, a product that Steve Jobs had pushed relentlessly, didn't fly anywhere. Sales met just a third of expectations. Jobs, analysts quipped, had made just two mistakes: He had targeted a bad product to the wrong market. Apple discontinued the Cube halfway through 2001.[64] Option magic, apparently, had its limits.[65]

That magic, critics argued, rested on a deeply flawed premise. Those who touted options as a magical performance-enhancing incentive assumed that steeply rising share prices reflect outstanding executive performance. But share prices can rise in the real world, and rise significantly, without an executive doing anything outstanding or even merely astute. Share prices, in a complex modern economy, reflect all sorts of factors that may have nothing whatsoever to do with executive performance.[66]

Factors like supply and demand.

Prices rise, textbooks tell us, when demand exceeds supply. In the stock market, demand started rising significantly in the 1980s. Paycheck deductions for 401(k)s, an entirely new retirement savings vehicle, were pouring hundreds of millions into the market for shares of stock, rain or shine, every two weeks. Millions of Americans, made stock-savvy by their 401(k)s, were also investing on their own, many for the first time. All this cash cascading onto Wall Street generated enormous upward pressure on share prices. By 1997, the S&P 500 stock market index had gained, in just fifteen years, an incredible 1,026 percent.[67]

In this bull market, Wall Street's greatest ever, the stock options awarded to America's top executives quickly became sure tickets to fortune. The swelling bull market, observers noted, had created a rising tide that was lifting all executive boats. In this awesome market, explained New York University's David Yermack, even executives "with mediocre or below-average performance" couldn't help but "end up making a lot of money."[68] Executives, *Business Week* charged, were winning rich rewards "for stock market performance, not business performance." Corporate America had committed "the classic error of confusing a bull market for genius."[69]

Could corporate America undo that error — and figure out a way to make sure that options rewarded only the truly worthy? Many investors felt certain the bull market-raises-all-boats dilemma could be overcome. Standard grants of stock options do not automatically connect rewards to actual performance, these optimists conceded. But stock option incentives could reward performance — if options came with "strings."

These strings could come in various sizes and shapes. Executives, some investor advocates proposed, should be expected to outperform their peers at other companies before they can collect any compensation windfall.[70] Options ought to be worthless, suggested the Council of Institutional Investors, unless a company outperforms a market or industry index. Steps like these would help ensure that "a CEO doesn't get paid just because the stock market rises."[71]

Other critics pushed even tougher option reforms. Advocates of "premium-priced options," for instance, wanted executives to have to hike a company's shares to a specified target price before they could cash in on their options.[72]

Some corporate boards of directors did take this advice to heart. In New Jersey, the RCN Corporation, a telecommunications start-up, awarded top executives options that could only be cashed in if company shares hit a target price and rose faster than the S&P 500 index.[73] But such string-laden options came with complications that gave most corporate boards pause. Normal "no-strings" stock option grants, for one, did not have to be factored into corporate earnings statements. Corporate boards could reward all the standard options they wanted without cutting their profit rates. "Out-perform" options carried no such accounting benefits. Under a 1972 accounting rule, these options are charged against earnings — and lower a company's reported profits. Such charges cost RCN, the New Jersey telecom, $50 million in one year alone.[74] This discriminatory treatment against options that carry performance targets could easily have been remedied, by having accounting standards treat all options the same, as charges against earnings. But executives continued to lobby diligently, and successfully, against that change throughout the 1990s and beyond, ensuring, noted the *New York Times*, that "the stock market's tide — be it rising or falling — will continue to have as much of an effect on most option values as a company's performance does."[75]

In the end, few corporate boards would place any strings on their executive stock option plans. One 1999 survey found that only a quarter of CEO option grants "contained any sort of link to performance."[76] For America's top executives, no strings, no sweat.

THE SEARCH FOR THE PERFECT EXECUTIVE INCENTIVE would take one other turn in the 1990s. If the goal is to get executives to behave like owners, some corporate boards started wondering, why not just insist that they become owners? Why not require executives to buy — and hold — shares of the company they managed?

The idea would catch on.[77] In the early 1990s, hardly any large corporations insisted that their executives own shares. By decade's end, according to pay consultants at Pearl Meyer, over one hundred of America's two hundred biggest companies were requiring executives "to buy and hold sizable blocks of stock." Some demanded that top executives own stock valued at fifteen times their basic paycheck.[78]

These stiff ownership requirements initially caused a bit of a stir, but they would eventually make little impact.[79] Few corporate boards that set ownership standards actually bothered to enforce them. Companies with ownership requirements, the *Wall Street Journal* reported in 1999, would "simply extend deadlines or cut the requirements for executives who don't comply."[80] In other situations, corporate boards thoughtfully structured their ownership mandates to make sure executives wouldn't lose their shirts if the company's share price

— and the value of the executive's ownership stake — started sinking. Baxter International, an Illinois medical products company, started an ownership incentive program in 1994 that required the firm's top executives to buy company stock. But the company didn't expect these executives to risk their own money to make these required stock purchases. Instead, Baxter International "guaranteed" $122 million in personal bank loans, and the executives used this risk-free cash to buy company shares.[81]

Other corporations, to help their executives meet stock ownership requirements as painlessly as possible, actually went into the executive loan business themselves. In 1993, for instance, Eastman Kodak required its new CEO, George Fisher, to own Kodak stock worth four times his annual base pay within five years. Fisher met that requirement — without having to spend hardly any of his own dollars. Kodak loaned Fisher $8.2 million to buy the required company shares, then waived interest payments on the loan, then, incredibly, forgave principal payments for a five-year period.[82]

Still other companies simply forgave loans to their executives completely. Priceline, a dot.com darling in the late 1990s, loaned $3 million to the firm's chief financial officer, Heidi Miller. Less than a year into her CFO tenure, with the company's share price down 90 percent, Miller left Priceline. The company forgave her $3 million loan.[83]

At several corporations, loan programs would lurch even more out of control. One financial services giant, Conseco, handed its top officials $575 million in loans and loan guarantees to purchase company shares. The borrowers, naturally, figured these shares would appreciate. By selling off the appreciated shares, they would then be able to pay off their loans and profit handsomely. But Conseco's share price didn't rise. The price tumbled — the "incentive" of stock ownership apparently not working too well — and executives suddenly could not afford to repay their loans.[84] Conseco's executives and shareholders were now fully, and perversely, "aligned." They were all in hot water together. Conseco would eventually show CEO Stephen Hilbert, the nation's fourth most highly paid chief executive in 1999, the door.[85] In 2002, the company went bankrupt.[86]

In that same year, President George W. Bush would sign into law legislation that prohibits sweetheart loans to top executives. But the legislation "grandfathered" in all corporate loans to executives currently in place.[87] At the bill's signing, on July 30, 2002, over a third of America's fifteen hundred largest companies still had executive loans outstanding. The loans totaled $4.5 billion.[88]

OUT-PERFORM OPTIONS. Premium-priced options. Ownership requirements. All these attempts by corporate America to shower incentive rewards *only* on worthy, high-performing executives share, with plain vanilla stock options, the same basic assumption: that the price of a company's stock does indeed represent a reasonable measure of executive performance. If a company's stock market share price is rising, Wall Streeters believe, that company must surely be on the right track. The market, after all, is always right. But this faith in market wisdom, this absolute confidence in the ability of markets to render valuable judgments about company performance, rests on several shaky propositions that can't be "fixed" with any amount of incentive plan fine-tuning.

The first, and most basic, of these propositions: Investors know what they're doing.

If investors chose stocks by throwing darts at the financial pages, no one would argue that these dart-throwing investors were making reasoned judgments. Investors, of course, don't choose stocks by flinging darts. But no one who follows the stock market, not even the most ardent believers in market wisdom, would seriously argue that individual investors always make informed judgments when they purchase stocks. In real life, stock purchases sometimes reflect sober judgments — and sometimes hot tips from brothers-in-law. Some individual investors do pore over corporate reports, but most investors remain unsure about even the most fundamental of investing basics. In 1997, the National Association of Securities Dealers asked a cross-section of Americans if they could describe the difference between a load and no-load mutual fund. Only 12 percent could.[89]

Champions of market wisdom readily acknowledge that most individual investors are in no position to evaluate corporate performance and prospects. But these clueless individual investors, the market faithful argue, make only a marginal impact on the ultimate judgments the stock market makes about individual corporations. Most decisions to buy and sell shares of stock, these cheerleaders claim, are made by experts, either professional stockbrokers or the skilled investment managers of mutual funds and pension plans. Share prices reflect the market wisdom of these experts.

How much "stock" should we put in this claim? Not much. In the contemporary stock market, even with "experts" teeming all about, a company's share price can rise and fall for reasons that have nothing to do with the overall performance of the company or the individual performances of the company's top executives. Consider, for instance, the fascinating phenomenon sometimes known as the "Dow Jones effect."

Dow Jones and several other Wall Street firms currently compile what are called stock market "indexes." Each index tracks a different representative sample of stocks. One index might track utilities, another transportation companies. The Standard & Poor's 500, one of Wall Street's most influential indexes, tracks the five hundred companies that boast the largest market value within their industries.

Indexes, historically, have given investors a sense of which way the overall market, or a section of it, is headed. Today indexes do more than that. They actually drive investment decisions, through mutual funds that mirror specific stock market indexes. The experts who manage these "index funds" don't try to outsmart the market by picking individual stocks. Instead, they buy all the stocks in a particular index. An index fund tied to the S&P 500, for example, will own the shares of every company the S&P 500 tracks.

Here's where the investing plot thickens. Indexes regularly add new companies and delete old ones, as companies come and go, grow and shrink. These decisions to add or delete can carry enormous market implications. If a new company is added to Standard & Poor's list of America's top five hundred companies, for instance, all the index funds that track the S&P 500 must go out and buy shares in that company. Such index-driven purchases can give a company's share price a powerful jolt. One example: In 1995, Standard & Poor's added Comerica Inc., a banking company, to the S&P 500 list. Over the next two days, the number of Comerica shares sold soared fifteen-fold. Comerica shares rose a swift 6 percent.[90] By the late 1990s, just the anticipation of a company's addition into the S&P 500 could be enough to send its shares zooming. In 1999, the market price of Yahoo rose 24 percent in just one day, as investors "snapped up shares of the Internet service before it was added to the Standard & Poor's 500-stock index at the close of trading." The big winners: Yahoo founders David Filo and Jerry Yang. Filo's stake in Yahoo jumped $1.6 billion in value, Yang's $1.5 billion.[91]

Another common stock market phenomenon, the "Fidelity effect," can also distort market "wisdom." Some Wall Street stock traders have become so huge that, just like bulls in china shops, they can't turn around without wrecking something, even if they have no intention of causing trouble. By the mid 1990s, the Fidelity mutual fund family had become one of these china shop bulls. Fidelity managed over one-half trillion dollars worth of stock, more than a quarter of all the stock held in America's mutual funds.

All these shares gave Fidelity a huge stake in many individual corporations, stakes so large that a simple decision by Fidelity to sell shares in a company that had been doing well — a decision that might allow Fidelity to pocket some profits — could send the company's share price into a tailspin. In early fall 1995, for instance, Fidelity's Magellan Fund held 12.2 million shares of Motorola. Over the next two months, Magellan sold 8 million of these shares. Motorola's share price promptly dropped 18 percent, at a time, the *Washington Post* reported, "when the company announced no bad news and Wall Street analysts issued no sell recommendations."[92] Executives at Motorola, in other words, had done nothing wrong, at least in Wall Street eyes. But their share price took a hit anyway. Against Fidelity's size, market "wisdom" would be no match.

Big market players like Fidelity eventually realized that, given the immense volume of their stock trading, trying to pick individual corporate winners out of the stock market pool might not always be worth the effort. Instead, Fidelity and other big players started picking sectors. Was technology going to be hot? Fine, the big players reasoned, let's buy tech. Let's buy tech companies across the board. If some of these companies don't pan out, no problem, as long as the tech sector, as a whole, does well.

That reasoning made eminent sense for big market traders like Fidelity. But the impact of that reasoning gave poorly performing executives a free ride.

With Fidelity buying up every tech company in sight, high- and low-performing companies alike would see an increased demand for their shares. That would be good news for executive underachievers in technology and other "hot" sectors, bad news for executives, competent or not, in sectors that investors were writing off. And in the late 1990s, even at the height of the stock market boom, investors were writing off plenty of sectors.

"Never have so many industries been out of favor with investors during a stock market boom," *Chief Executive* magazine complained in 1999. "In one of the most bullish years ever, 10 of the 17 industries we studied suffered negative shareholder returns."[93]

These negative returns in autos and other out-of-favor industries meant that executives in these sectors were missing out on the juiciest option windfalls. Corporate boards of directors in these disfavored sectors reacted predictably. They panicked. To keep their executives from jumping ship and flocking to industries where the options were greener, corporate boards started dishing out incentives less dependent on market "wisdom." Ford Motor, for instance, handed CEO Jacques Nasser a multi-year cash bonus. Under the terms of Nasser's pay agreement, he would be able to collect that bonus even if Ford's share price sank.[94] Option magic, with a twist.

INDIVIDUAL INVESTORS WHO HAVEN'T the slightest clue about which executives are performing well and which aren't. Companies whose shares go up in price simply because they've been added to a market index. Shares that go down in price simply because a king-sized player like Fidelity has decided to pocket profits. Executives who win stock option jackpots because they're lucky enough to work for a company in a sector the market defines as "hot." Executives rewarded with extra compensation goodies because they work in a sector the market dismisses.

Something surely must be missing from our picture. Where are the experts paying attention to how well individual companies — and their executives — are performing? And if no one is paying attention, how can anyone possibly claim that share prices represent a fair measure of executive performance? We must have omitted some element of Wall Street market reality. And indeed we have. We have yet to consider that key financial world player known as the stock market research analyst, Wall Street's single most important source of wisdom about corporate and executive performance.

Stock market research analysts specialize in specific industries and companies. They parse company balance sheets line by line, ever vigilant for indicators that reveal just how well, or poorly, a company may be doing or about to do. Every so often, they share their wisdom. Buy these shares, they tell those of us who haven't the time to identify emerging corporate winners, sell those others. Every major securities firm on Wall Street maintains a stable of well-paid analysts. These analysts can be enormously influential. A good word from the right analyst can send a company's shares into the stock market stratosphere —

and turn executive option incentive awards into eight- and nine-digit fortunes.[95] This dynamic gives executives, in turn, an incentive to give stock analysts more than a good bit of their time and attention. Top executives seem to understand almost intuitively that a calculated burst of CEO charm and charisma, carefully targeted to just the right stock analyst, can work wonders for their bankrolls.

"I do know from my own experience watching how security analysts respond to CEOs that the personality of the CEO has a significant effect on the price of the stock," noted T. J. Dermot Dunphy, one former CEO, in a 2001 interview.[96]

CEOs also understand that analysts can be as easily intimidated as charmed. Among the most notable intimidators: Enron CEO Jeff Skilling. "If you didn't act like a light bulb came on pretty quick, Skilling would dismiss you," one big trader told *Fortune* after the energy giant went belly-up. Enron "had Wall Street beaten into submission."[97]

But charisma and browbeating only partly explain why stock analysts so seldom discomfort the companies they are supposed to be rigorously rating.[98] Much more significant have been the institutional pressures — the powerful conflicts of interest — that encourage analysts to swallow any discouraging words a truly independent analysis might lead them to utter.

These institutional pressures have built up significantly over recent years. A generation ago, Wall Street brokerage houses gained much of their revenue from stock-trading commissions, and out of those commissions came the funding for analyst research. In that commission-driven environment, Wall Street firms didn't particularly care whether their analysts recommended that investors "buy" or "sell" a particular stock. The firms made money as long as investors kept buying and selling, since every transaction generated hefty commissions. But these transactions, in the 1980s and 1990s, became less and less profitable as first discount brokers and then the Internet captured significant stock-trading market share. With commissions fading, the Wall Street houses that used to count on commissions would come to depend more on investment banking for their revenues.

As investment bankers, these Wall Street firms took the shares of stock their clients — individual corporations — had to sell and sold these shares to the investing public. Naturally, the Wall Street underwriters wanted the investing public to pay premium rates for these shares. Just as naturally, the Wall Street firms expected their analysts to help the process along, by issuing judgments about the shares that were suitably enthusiastic. But the conflict of interest didn't stop there. Wall Street companies were constantly on the prowl for new stock issues to take public. Analysts who regularly made negative judgments about companies were, in effect, alienating possible future clients. The fewer clients, the less investment banking profit, the smaller the firm revenue — and, eventually, analyst paychecks.[99]

All these pressures — the fear, the greed, the infatuation with charismatic executives — would combine, by century's end, to make stock analysis about as credible as pitches from carnival barkers. No matter the stock, no matter the circumstance, stock analysts had just one word for the often unsuspecting investing public: buy. One analyst, from Salomon Smith Barney, didn't stop recommending that investors buy Enron until shares had sunk to $15.40, a price down nearly $70 from the stock's high.[100] One survey, conducted in 2000, examined 27,000 different analyst recommendations. Fewer than 1 percent recommended "sell."[101]

America, by 2001, had seen enough. Midway through the year, even before Enron collapsed, stock analysis would emerge as a national op-ed issue, in both the business and general press. Congress would feel compelled, in June, to call the securities industry onto the carpet.[102] Why all the concern? Why had stock analyst conflicts of interest become such a major sore point? Stock analyst conflicts of interests, acute observers understood, threatened much more than the reliability of "buy' and "sell" recommendations. Problematic stock analysis subverted corporate America's entire incentive structure. This structure rested on the simple notion that share prices rise when executives perform well. But if share prices could be sent soaring by factors that have nothing to with executive performance — by, for instance, bogus "buy" recommendations from stock analysts with hidden agendas — then executives could be rewarded even if they performed poorly.

Conflicts of interest in stock analysis, commentators urged, needed to be swept away, and, midway through 2002, Congress would finally do some sweeping, enacting legislation to "protect the objectivity and independence of stock analysts."[103] The unspoken assumption behind this reform legislation: Share prices, once established in a transparent, conflict-of-interest-free market, would accurately indicate how well, or how poorly, a corporation is performing. But what if share prices, even if set by an entirely "honest" market, are not the only important measure of corporate performance? What if judgments about corporate "success" need to take other indicators besides "return to shareholders" into account? And if other indicators beyond shareholder return do indeed need to be taken into account — before any company, or chief executive, can be judged successful — then wouldn't any compensation system that bases incentives on share prices end up rewarding executives who might actually be poor or mediocre performers?

Good questions. Inside corporate America, at century's end, no one was asking them.

PEOPLE USUALLY ONLY ASK QUESTIONS when they need answers. Corporate America's movers and shakers aren't asking questions about corporate success because they don't feel they need answers. They already *know* what success is. In corporate America today, success equals maximizing shareholder value. End of discussion. CEOs are expected to labor toward one goal and one goal alone: to make sure shareholders get their due.[104] No other stakeholders matter. Any executive who increases shareholder value, American corporate leaders believe, is performing nobly and ought to be suitably rewarded.

Elsewhere in the corporate world, by contrast, other stakeholders do matter. In Japan, in continental Europe, shareholders are considered just one stakeholder among many.[105] Only in the United States and the United Kingdom, note finance scholars David Collison and George Frankfurter, "are shareholders' interests regarded as preeminent."[106]

What gives shareholders in the United States the right to such all-encompassing preeminence? Corporations, one argument holds, desperately need the dollars shareholders invest in them. Without these dollars, companies would never be able to grow and prosper. In fact, few of the dollars modern corporate enterprises use to do business come from shareholders. Most of the dollars that investors shell out to buy stocks go to other investors who happen to own the shares, not to the corporation whose shares have been traded. Shareholders only rarely buy shares directly from a corporation.

So where do corporations get the money they need to operate? Not from stocks. In 1993, corporations whose stock traded publicly needed $555 billion to do business. Proceeds from equity — money corporations raised by selling their stock directly to investors — accounted for a mere 4 percent of that $555 billion, according to Federal Reserve figures. The overwhelming bulk of the operating capital corporations needed, 82 percent, came from "retained earnings," company income from selling products and services. Another 14 percent came from borrowing.[107] Revenues from the sale of shares can sometimes, to be sure, play a significant role, particularly for young companies. But overall, notes *Business Ethics* editor Marjorie Kelly, equity capital's limited contribution to business success in no way justifies a limitless shareholder claim on corporate earnings.

"Equity capital is one relatively minor source of funding, vital at a certain point," she points out. "Yet it entices holders to suck out all wealth, forever."[108]

Outside America's corporate suites, some critics have begun challenging this logic of privileging shareholders at the expense of consumers, employees, communities, and other stakeholders. An overbearing fixation on shareholders, notes columnist Ellen Goodman, isn't even ultimately in the best interests of shareholders themselves. After all, shareholders are people, too, "stakeholders in society," not just owners of stock.[109]

Corporate leaders usually dismiss such sentiments as do-gooder raving. But sometimes even corporate leaders openly acknowledge that corporations amount to more than share prices. These moments, curiously, only seem to materialize when corporate leaders are asking society at large to bail out a failing enterprise. Those who seek bailouts, and those who try to justify them, never argue the government must save a troubled corporation to "maximize shareholder value." They argue, instead, that the greater community has an important stake in a failing enterprise's survival. These arguments resonate powerfully, because communities *do* have a stake in corporate success.

If communities do have a stake in corporate success, then, of course, shareholders are not the only stakeholders that matter. And if shareholders are not the only stakeholders that matter, then executives should not be rewarded for pleasing only shareholders. Executives should be expected to please all an enterprise's stakeholders — and be rewarded only if they are successful in that endeavor.

In the 1990s, some corporate boards did actually embrace this notion that executive incentives need to consider more than shareholder return.[110] At Ford, for instance, the board of directors added a product "quality" incentive into CEO Jacques Nasser's compensation package. But skeptics suspected that Ford was only going through the motions. They soon had ample evidence. In 1999, Ford failed to meet its vehicle warranty and customer satisfaction "quality" target. No big deal. Ford would hand CEO Nasser $10.2 million anyway, a 48 percent raise over his pay in 1998, when Nasser headed up Ford's auto operations. So much for quality as job one.

By century's end, in boardrooms the nation over, America's corporate elite would worship shareholder value and shareholder value alone — and nowhere more so than at Computer Associates, a New York software company. Directors at Computer Associates would dangle more than a billion dollars in incentives before the company's top three executives. To realize that billion, the executives needed only to give the company share price a healthy boost up. What happened next warrants a few moments of our time.

COMPUTER ASSOCIATES, BY THE MID 1990S, had become a classic corporate success story. The company, just a three-person start-up in 1976, had achieved world-class status.[111] In the entire software industry, only a handful of companies stood any taller. Could Computer Associates grow even bigger? The company's board believed it could, if only the firm's three top executives — CEO Charles Wang, President Sanjay Kumar, and Executive Vice-President Russell Artzt — were extended just the right incentives. No garden-variety incentive plan, the board felt, would do. The company's new incentives would have to be grand enough to inspire lofty new levels of executive performance.

The board's new incentive plan, approved in 1995, would promise CEO Wang and his top two colleagues more than 20 million shares of company stock if the Computer Associates share price, in just one twelve-month period over the next five years, closed above $53.33 for at least sixty days.[112] To reach that milestone, the company's share price would have to jump 20 percent a year, twice Wall Street's historic rate of return.

Beating that ambitious marker would turn out to be mere child's play for Wang, Kumar, and Artzt. On May 21, 1998, the three hit the "jackpot" — and ahead of schedule. The company's shares that day closed at just over $55, their sixtieth day over $53.33 in the previous year. That close triggered an incentive windfall worth more than $1.1 billion.[113] The lion's share, over 12 million shares worth $670 million, went to the fifty-four-year-old Wang. Kumar pocketed shares worth $334.9 million, Artzt $111.6 million.[114]

Computer Associates shareholders, for their part, weren't complaining. The incentive plan seemed to have worked admirably. Shareholder value had been maximized!

That maximization would be brief.

The Computer Associates up-escalator, after the May 21 jackpot day, would suddenly reverse direction. By late July, company shares had dropped 31 percent off their May high. The reason? To offset the grants of actual stock to Wang, Kumar, and Artzt, the company had been compelled to book a $675 million charge against earnings. Before the charge, the company had claimed a $194 million profit. After the charge, the company stood $481 million in the red.[115] That did not please Wall Street — or shareholders. The incentives intended to enhance shareholder value, they suddenly realized, had instead sent that value sinking. The angriest of the shareholders, in a series of lawsuits, would charge that Wang and friends had scored their $1.1 billion windfall by "artificially inflating the company's stock price."[116] A year later, a Delaware judge, citing a technicality, ordered the three executives to give about half the windfall back.[117]

Throughout this litigation, the Computer Associates board of directors would remain thoroughly unrepentant. Their incentive plan, directors insisted, had worked as intended.

"It was a very good plan," explained the chairman of the board's compensation committee, Willem F. P. de Vogel. "I have never seen three people work harder."[118]

But what exactly did the Computer Associates top executives work hard at? Producing great products? Not quite. Among the company's primary customers, the managers of mainframe computing operations, Computer Associates was striking out badly. At technology conferences, where these managers gathered, "probably 95 percent of the hands" in the room would go up when attendees were asked if they wanted to drop Computer Associates products, the *New York Times* reported.[119] These product failings never seemed to interest CEO Wang or any other top Computer Associates executives. They were too busy scheming to keep the company's share price inflated.

The most creative of these schemes involved the fees that customers paid to use the various Computer Associates software products. Computer Associates, under Wang, would regularly claim as immediate current income the total value of long-term, multi-year software contracts. This hocus pocus worked wonderfully as long as Computer Associates could get customers to keep signing long-term contracts. But moving Computer Associates software, as the 1990s wore on, became a harder and harder sell. The big mainframes that

Computer Associates software served no longer dominated business computing. In response, Computer Associates executives could have carefully analyzed the computing marketplace, made some judgments about the software their customers would need down the road, and then worked to create these new products. But why bother? Computer Associates executives had a more lucrative solution. They would buy up, by the hundreds, their smaller rivals. What these smaller rivals had, and what Computer Associates coveted, were customers with long-term contracts. Each of these contracts could be extended, or "rerolled," into new revenue for Computer Associates. A $2 million, five-year contract with two years to go might become a new $4 million ten-year contract. Computer Associates would then book the additional millions as fresh cash. Computer Associates, in the 1990s, would turn this rerolling into a sleazy corporate art form. The company, one former executive revealed, made a practice of hiring "young, cute girls to basically resell maintenance contracts."[120]

But the "cute girls" wouldn't be enough. CEO Wang and his gang figured out early on that they would only meet their personal incentive plan targets if Computer Associates had really big long-term contracts to reroll. And they could only get these really big contracts, the executives understood, by buying out their largest rivals. Wang and his colleagues would pursue exactly this course. In 1995, in "the largest takeover in the history of the software business," Computer Associates would buy out Legent software for $1.8 billion, then spend $1.2 billion the next year to grab Cheyenne Software. The scheming would continue even after Wang and friends scored their $1.1 billion windfall in 1998, since Wang and his fellow executives apparently knew no other way to keep their money-machine rolling. In 1999, Computer Associates would buy out Platinum software for $3.5 billion, then top that the next year by snatching up Sterling software for $4 billion.[121] All these buy-ups, essentially a high-tech pyramid scheme, would goose the Computer Associates share price after its post-windfall tumble — and help CEO Wang to still more mammoth personal paydays. He would gross $445.7 million in 1999.[122]

The Computer Associates share price comeback would be short-lived. After peaking at decade's end, the company's share price again plummeted. Wang would step down as CEO in 2000. Over his last three years as chief executive, *Business Week* calculated, he had earned $698.2 million. In those same three years, the return to Computer Associates shareholders had dropped 63 percent.[123] No other executive in America, *Business Week* pointed out, had given shareholders, over those three years, less for their money.

THE ENORMOUS WINDFALLS at Computer Associates signaled, for many business observers, a corporate incentive system gone more than slightly haywire. The link between pay and performance, *Business Week* concluded in 1999, "has been all but severed in today's system."[124] Incentives that tied pay to share prices, some thoughtful business leaders had come to realize, inevitably produced executives who spent more time manipulating the market than managing enterprises for success. But most business observers saw nothing amiss. Incentives tied to share prices remained corporate America's wonder drug.

"We really made it worth people's while to drive stock prices up, and they found ways to do it," exulted Jude Rich, a "human capital" consultant with Sibson & Co.[125]

Some observers put the blame for this sort of mindless cheerleading on corporate boards of directors, the bodies responsible for determining executive incentives in the first place. In the post-mortems after the Computer Associates billion-dollar windfall, for instance, critics faulted the company's directors for accepting a sixty-day trigger in the incentive plan for their top executives. How could sixty days, critics wondered, ever be considered enough time to demonstrate real improvement in a company's fortunes?[126]

Why do members of corporate boards accept such flawed incentive plans? They have their own incentives. The Computer Associates board, for instance, included Shirley Strum Kenny, the president of the State University of New York at Stony Brook. In 1996, Kenny's university received a $25 million donation from Computer Associates CEO Charles Wang.[127]

Such flagrant boardroom back-slapping, organized labor would note in 1998, infests the entire executive incentive-setting system. Corporate boards, the AFL-CIO charged, "are rigged to overpay CEOs."[128] Researchers would back up labor's charges. One study of almost twelve hundred companies, conducted by the Investor Responsibility Research Center, found intricate business ties between directors and the executives they were supposed to be making independent judgments about.[129] At MBNA Corp., a national credit card company, the board of directors compensation committee was chaired by the college roommate of MBNA's top executive, Alfred Lerner. The roommate's law firm supplied MBNA legal services. Between 1993 and 1997, MBNA CEO Lerner's pay increased 147 percent a year, three times faster than the company's share price.[130]

Board compensation committees, a leading National Association of Corporate Directors official would acknowledge in 2001, simply aren't very adept at setting pay standards.

"They don't spend enough time on it," noted Roger Raber, "and a lot of this is done by the seat of your pants in a clubby atmosphere."[131]

In this clubby boardroom atmosphere, chief executives set the dominant tone.

"Sixty percent of the directors of companies are the CEOs of other companies," corporate pay watchdog Graef Crystal estimated in 1999, "and they don't come to the table with a predisposition against high pay."[132]

The top executives who sit on each other's boards of directors, *Los Angeles Times* commentator John Balzar would add two years later, "solemnly tell each other they need all this money or they couldn't possibly be motivated to get out of bed and come to the office." And then, adds Balzar, "they hire factotums to step forward with straight faces and tell the rest of us that this is so."[133]

The most significant of these factotums: the executive pay consultants who do the statistical legwork for board compensation committees. Graef Crystal, before becoming an executive pay whistle-blower, spent more than twenty years as one of these consultants.[134] Crystal, like most of his consultant colleagues, would actually be hired by the corporate executives whose incentive plans he would be recommending, not by the corporate board committees charged with setting executive pay.

"Therein lay the problem," notes Crystal. "If the CEO wanted more money, and I didn't want to recommend to the board that he should get more money, well, then, there was always a rival compensation consultant who could be hired."[135]

NOT ALL CHIEF EXECUTIVES have their incentives set by corporate boards they totally dominate. Board members do occasionally take the upper hand. At other moments neither side may hold clear control. Turnover also clouds the power picture. Over time, within individual corporations, casts of characters will change. A particularly dominant CEO might retire. New board members might flex some muscle. Corporate power, as a consequence, is almost always flowing, sometimes running into the boardrooms where corporate directors meet, sometimes ebbing out into executive suites.

Could reforms in how corporations are required to operate help channel more power into boardrooms? Could these reforms produce incentive plans less stacked in executives' favor? Some observers believe so. Boards of directors would display more independent judgment, they argue, if CEOs were prevented from chairing the boards of their own companies, or if the individuals who serve on a corporation's board were not allowed to have any business dealings with the corporation. But other observers doubt that such steps would put much of a brake on escalating CEO pay. The sorts of individuals who serve on corporate boards, these doubters point out, all share the same underlying perspective. They all assume that chief executives can — and will — make bottom-line miracles happen *if* they are offered enticing enough incentives.

Where boards differ, researchers have shown, is on how they *justify* the lush incentives they offer executives to keep these miracles coming. Boards that seldom exert much independent judgment typically describe their executive incentive plans "as a means of retaining scarce leadership talent."[136] Directors on these boards tend to talk about their CEOs as "uniquely talented leaders" or "valuable human resources" that the company can't possibly afford to lose. On the other hand, where boards function somewhat more independently, often the case at companies where the CEO and the chairman of the board are not one and the same person, board members seldom spend much time blessing the brilliance of their executives. Directors on these more independent boards stress, instead, the importance of keeping executive noses to the grindstone. Incentive plans, these boards contend, should only reward executives if they deliver the goods.

Directors at companies that don't fit snugly into either of these two categories — firms where "board control over management is neither particularly high nor low," about a fifth of the companies examined by Northwestern University researchers Edward Zajac and James Westphal — go both ways. These boards of directors laud their executives as talents the company can't afford to lose *and* insist that, without performance incentives, executives would likely go off and feather their own nests at corporate expense.[137]

Do any of these differences actually make a difference? Are "independent" boards that insist that executives "perform" before they are rewarded less likely to shovel dollars into executive pockets than kowtowed boards that hand executives rewards just to keep them from leaving? In a word, no. "Independent" boards of directors that orate endlessly about the importance of only rewarding performance are posturing, the research suggests, nothing more. These "independent" boards, in practice, demonstrate no rock-solid commitment to holding executives accountable.[138] By demanding performance-based incentives, these boards are merely signaling, to the rest of the business world, that they call the shots, not the top executive. Lions roar to proclaim their dominance. Corporate boards insist that their executives "perform."

And if those executives don't perform? Their corporate boards will reward them anyway. The boards know it — and their executives know it, too. Poor performers in executive suites can almost always count on their boards to be ever so understanding. America's top executives, in effect, now find themselves sitting in "an absolutely no-lose situation." CEOs who underperform, notes long-time compensation consultant Donald Sullivan, can count on continued rewards "as a goad to improve their results." And if those rewards don't improve results, chief executives can then count on boards to say "we have to stay 'competitive,' so let's ignore performance."[139]

At Time Warner, for instance, shares sank over 15 percent from 1993 to 1996, at the same time the S&P 500 was rising nearly 60 percent. But that poor performance didn't stop Time Warner from handing CEO Gerald Levin a $4 million bonus in each of those three low-performing years. The reason? Time Warner, the company explained, had to consider the rewards offered by its "most direct competitors for executive talent."[140]

In the 1990s, this imperative to be competitive would sweep through America's corporate boardrooms. By the early twenty-first century, 96 percent of S&P 500 companies were "benchmarking" their executive pay against the compensation of rival executives.

"Company boards figure that if a CEO doesn't earn as much as his peers," *Business Week* explained, "he'll take a hike."[141]

But who should be considered a top executive's "peers"? That would become, in corporate boardrooms, a $64 million question. Should corporate boards strive to make sure their top executives are paid as well as their industry's average-paid CEOs or as well as their industry's best-paid CEOs?

Executives about to be "benchmarked," naturally, always want their rewards keyed to what their more highly paid "peers" are making. They usually get their way. In America today, everyone involved in the benchmarking process has a vested interest, an incentive, to set the benchmark high, not low.

Executive compensation consultants, the people who compile peer group pay statistics, have an incentive to keep their consulting contracts. These consultants almost always recommend that top executives be paid at a rate higher than their average-paid peers, smart thinking since consultants owe their contracts to those top executives.[142]

Members of corporate boards, meanwhile, have an incentive to keep their CEO happy. That CEO, after all, must be above-average. Why else would the board have hired him — or, ever so occasionally, her — in the first place? Boards almost always agree to benchmark their CEO at some above-average level, most typically somewhere between the fiftieth to seventy-fifth percentile of all comparable executives. If they didn't set this above-average benchmark, board members fear, their CEO might just pick up and leave, forcing the board to go through the "time-consuming job of finding a successor."[143]

"Read the directors' rationale for CEO pay, contained in the annual proxy statement, and you're likely to find that the goal is to keep pay in line with that provided by the top half of the industry," notes *Philadelphia Inquirer* business analyst Jeff Brown. "That doesn't sound extravagant, but if all companies seek to offer above-average pay, simple math says the average must constantly rise."[144]

Competitive benchmarking gives corporate America, in essence, a perpetual upward motion CEO compensation machine.

"We want to make our CEO happy," as one corporate director told *Business Week* in 2001, "and the best way to make him happy is to pay him commensurate with our competitors."[145]

CORPORATE BOARDS PLAINLY FIND penalizing poor performance — by executives — a distinctly distasteful chore. They much prefer devoting their creative energies to more positive pursuits, like coming up with incentive packages sweet enough to keep their executives from looking elsewhere.

These "retention" incentives have taken various shapes. Some boards simply give their favorite executives shares of stock outright. These "restricted" stock grants — so named because the executives who receive them cannot do anything with the shares for a specified period of time, typically four years — hold charms ordinary stock options cannot match. With stock options, executives gain merely the *right* to buy stocks at a certain fixed price. An option to buy a hundred thousand shares at $20 a share, for instance, will only be valuable if the stock's actual market price rises above $20. Grants of restricted stock eliminate all downside. An executive with restricted stock owns an actual asset, not merely the option to buy an asset. This asset will have value even if the company's share value sinks. If, for example, a hundred thousand restricted shares originally worth $20 each crash to $10, those shares are still worth $1 million, and all the executive with these shares needs to do to collect that $1 million is sell the shares at $10.

"With restricted stock," as compensation watchdog Graef Crystal puts it, "you just have to breathe 18 times a minute to make a profit."[146]

Plenty of executives in corporate America can do that, and their boards seem determined to reward them for it. By 1999, more than a third of America's corporate boards, 38 percent, were dispensing restricted stocks to executives.[147] These grants, proclaims Jan Koors, a prominent compensation consultant, give corporate America "a strong retention tool." Executives who jump ship *before* they can cash out their restricted stock, he explains, stand to lose millions.[148]

In theory perhaps. In actual corporate life, restricted stock grants have proved a pitifully poor "retention" incentive. Companies on the prowl for executive talent simply up their offers to make up for whatever retention incentive executives might have to forfeit by exiting their current companies. In 1999, for instance, Fort Worth's Sabre Holdings Corp. snatched executive hotshot William Hanningan out from SBC Communications with a pay package worth $20.9 million. That package, a Sabre official told the *Dallas Morning News*, was designed to be cushy enough to make up for any compensation Hanningan lost when he left SBC.[149]

Restricted stock grants, in other words, work wonderfully as a retention incentive — so long as a company that grants the restricted stock has an executive nobody else wants. If, on the other hand, a company has an executive other firms lust after — in short, an executive worth keeping — restricted stock and other retention incentives make no impact whatsoever, except, of course, to raise the overall level of executive pay another several notches.

Boards of directors absolutely convinced that they must retain their top executive at all costs do occasionally change their minds. Sometimes quickly. In 1996, computer hard-drive maker Seagate Technology wanted desperately to lock up the services of its top executive, the sixty-five-year-old Al Shugart. The California company pledged to hand Shugart 150,000 shares of stock if he stuck around as CEO another five years.[150] Two years later, Seagate's board had become desperate once again, this time to show Shugart the door. The company had slumped, and the board that had locked up Shugart's services for five years now wanted him out after just two. Shugart refused to go. To give him an incentive to change his mind, the Seagate board would eventually accelerate the vesting of Shugart's restricted shares, extend the amount of time he could sit on stock options previously awarded him, and agree to pay him $750,000 a year over the next three years for consulting. Shugart would eventually walk away with $10 million.[151]

Corporate America, by century's end, had perfected executive pay incentives for every occasion. Executives could earn king-size compensation if they "performed" in their jobs, if they stayed in their jobs, or if they, like Seagate's Al Shugart, exited their jobs.

Corporate America's exit incentives, otherwise known as "golden parachutes," first started unfurling in the 1980s when corporate raiders began buying up stock in their takeover targets at increasingly inflated prices.[152] Big shareholders at the targeted companies welcomed the raider interest. Top executives, understandably, didn't. Any takeover could cost these executives their suites, and this unnerving prospect gave CEOs an incentive to battle takeover bids, even those bids that would make their shareholders fortunes. Corporate boards figured they needed to give executives a counter incentive, some contract sweetener that would encourage executives to approach takeover bids more open-mindedly. Enter the golden parachute, an agreement to award a displaced executive what amounts to super severance. Executives outfitted with golden parachutes need not fear whatever a takeover could bring. The new owners might shove the old executives right out of their top-floor offices. But no one, at least no one who mattered, would be hurt. The executives shoved out, buoyed by their multimillion-dollar canopies, would float softly down to earth and land, safely and securely, on their feet.

By the 1990s, golden parachutes had become standard corporate operating procedure. Companies of all sizes and shapes, *Nation's Business* magazine noted in 1994, were routinely using golden parachutes "to attract new talent and to retain key people."[153] Nearly three out of five major companies, added *Executive Compensation Reports* two years later, were offering their top executives super severance.[154]

These golden parachutes were soon funneling hundreds of millions of dollars out of corporate coffers. Leonard Abramson, the founder and CEO of USHealthCare, floated down from his lofty corporate perch with $56 million when Aetna gobbled up his company in 1996. In 1998, Bank of America chief executive David Coulter had a most comfortable landing after his enterprise merged with Nationsbank. Coulter walked off with $4.97 million a year for life, *plus* another $48 million in assorted extra severance.[155]

David Coulter and his fellow executives had come to reside, by century's end, in a truly wondrous world. In this special place, executives with incentives to perform didn't have to perform to become extravagantly wealthy, and executives with incentives to stay didn't have to stay to become wealthier still. Corporate America, in a sense, had gone far beyond the realm of incentives. Boards of directors were no longer *incentivizing* executives. They were *insuring* them — against even the remotest possibility that their executive service would leave them with anything less than a dynasty-sized fortune.

Golden parachutes served as insurance. Grants of restricted stock served as insurance. But the most imaginative insurance of all only began popping up, with any frequency, in the mid 1990s. The insiders called this newest twist "repricing."

Repricing addressed a most aggravating aspect of power-suit life, the annoying reality that stock options do not automatically translate into compensation windfalls. Share prices must rise over time for options to pay off, and share prices, despite an executive's best manipulative efforts, sometimes do not rise. Corporate boards can sidestep this built-in flaw, as we have seen, by going the "restricted stock" route — and rewarding executives with actual shares of stock, not just options to buy. But grants of restricted stock leave unsettled the predicament of option-laden executives stuck at companies with sinking shares. These executives hold worthless paper. How could they be expected to perform nobly, or even stick around, without an option windfall to dream about?

Corporate board compensation committees, fortunately, have the wherewithal to remedy the situation. They can simply cancel existing options and reissue new ones, usually without shareholder approval, "repricing" these new options at a lower price.[156] The compensation committee at Cendant, the financial services giant, did a good bit of this repricing in 1998, after the discovery of what *Business Week* called "massive accounting irregularities" sent the company's shares tumbling, from over $30 to less than $10. That tumble shoved the 25.8 million options held by the company's CEO, Henry Silverman, "underwater." Silverman had been granted the options when Cendant shares were selling in the $17 to $31 range. With the share price at $10, his options had become worthless. But not for long. The Cendant compensation committee, undoubtedly unnerved by the realization their company might soon have a sulking CEO, repriced "a big chunk" of Silverman's options to $9.81. The stock then rebounded to $15, enough to turn Silverman's worthless options into an asset worth over $54 million. Silverman ended the year in ninth place on *Business Week*'s annual list of America's best-paid CEOs.[157]

Repricing does carry risks. Corporate boards that reprice can count on rumblings from shareholder ranks. For some reason, many shareholders cannot understand why executives should get worthless options "repriced" while ordinary shareholders, if they bought a sinking stock before it sank, are simply stuck. In response, repricing corporate boards insist they have no choice. If they didn't reprice, they would no longer be "able to compete." They would "lose employees."[158] And perish that thought, particularly if the employees who might be lost happen to occupy a CEO seat.[159]

The ongoing competition for executive talent, in other words, makes repricings unavoidable, or so goes the corporate spin.[160] Some companies, in their haste to insure executives against any unfortunate eventuality, have even spun themselves into repricing circles. Metro-Goldwyn-Mayer Inc., for instance, repriced the options held by a *former* CEO. But weren't repricings, reporters wondered, a stratagem meant to *retain* CEOs? Why reprice the options of an executive already departed? MGM scrambled for a rationale. The repricing was only fair, a spokesperson finally blustered to *Business Week*, since the company had repriced options for other executives the year before.[161]

MGM-LIKE INANITIES, by the end of the 1990s, had corporate America's image-*meisters* advising boards of directors to steer clear of repricing.

"Option repricing is a justifiable flashpoint for CEO pay critics," *Chief Executive* magazine concluded in 1999. "The simplest rule for boards and compensation committees to follow is never to reprice options. The public relations danger is simply too great and it will only feed the critics' worst suspicions."[162]

Most corporate boards have ended up taking *Chief Executive*'s advice, particularly after the Financial Accounting Standards Board changed the accounting rules. Under the new rules, adopted in the late 1990s, companies that canceled underwater options and replaced them with new repriced opportunities stood to face a "substantial charge against earnings."[163] Some corporations, of course, did try to end run the new regulations. Sprint, for instance, canceled worthless underwater options and promised to issue the employees who held them, in six months and a day, new repriced options. Six months and a day just happened to be the length of time a company had to "wait to avoid extra expense charges under the new accounting rule."[164] But companies like Sprint were careful not to apply this end run to the underwater options held by their topmost executives. The negative public relations fallout would simply have been too great — and, besides, why chance that fallout when the flaws of standard stock option plans could be addressed by so many other less controversial approaches?

These alternative approaches were soon proliferating across the corporate landscape. Some companies with sinking share prices simply issued their executives stuck with underwater options huge new quantities of options, at an attractive low price.[165] Other boards gave executives more time to exercise their options, a move designed to give underwater options a chance to float back to the surface. In 1999, for instance, Sears gave CEO Arthur Martinez and other top executives an extra year to get the company's share price up. The company's incentive goals, Sears spokesperson Peggy Palter told the *Chicago Tribune*, needed to be "more realistic."[166]

But time extensions, as welcome as they might be, couldn't insure underwater executives an option payoff, one big reason why some boards opted for more direct guarantees. The ever-imaginative directors at Philip Morris, for their part, started paying executives "dividends" on their option grants, a most thoughtful gesture since the company's shares, worth over $58 in 1998, were down by more than half two years later. The dividends — on shares the executives did not actually own and might never own, if they chose not to exercise their option — didn't bring the Philip Morris shares above water, but executives, *Business Week* pointed out, could at least "look forward to a quarterly check."[167]

Other companies tried to insure their executives against option anxiety with a neat little trick known as the option "reload." Executives blessed with reloadable options would automatically receive new options whenever they exercised old ones. Executives with reloadable options could make money, and lots of it, despite precipitous drops in their company share price. "Executives at Alcoa, American Express, Morgan Stanley Dean Witter and Sprint," the *New York Times* reported in 2001, "all were able to cushion their losses because they reloaded their options back when their shares were flying high."[168]

But even reloads don't *guarantee* windfalls at the end of the option rainbow. To *fully* insure that options pay off, a company would have to agree to pay an executive even if the company's shares do not rise. No company, of course, could possibly agree to reward an executive who *fails* to raise the company's share price, could it? Nonsense. We live in a free country. Corporations can do anything they want, even explicitly promise to reward an executive for failing. Some businesses, the *Wall Street Journal* reported early in the new century, were actually protecting executives against stock depreciation "with guaranteed cash payments if their stock price fails to reach a certain level."[169] Amazon, for instance, lured Joseph Galli from Black & Decker with a $7.9 million cash bonus and 3.9 million stock options. Amazon *guaranteed* that the options would generate a $20 million payoff. If Amazon's shares didn't jump enough to enable Galli to cash out a $20 million personal profit, the company promised to give Galli the $20 million outright.[170]

No one, of course, demanded the heads of the Amazon directors who had approved the Galli deal. Those directors were merely playing the game as corporate America had come to expect it to be played. Companies throughout the United States, *Business Week* noted early in the new century, are "frantically piling on more options and scrambling to make sure their execs come out on top — no matter what happens to their share prices."[171]

Close observers of corporate America could only shake their heads.

"It's insane to think that these 'incentives' worth millions of dollars are buying anything extra," charged former pay consultant Graef Crystal. "When it comes to pay, too many of these guys have no off-button — that's the greedy part."[172]

Who could argue?

BACK IN THE EARLY 1990S, amid the first major rumblings about overpaid CEOs, reformers advanced a host of specific proposals to end executive excess. At the time, the typical CEO at a major American corporation was earning about $2 million a year — more than three times what executives were making in the early 1980s. What could be done to bring this excessive pay under control? Executive incentive plans, *Business Week* urged, should be simplified. Limit executives to "a salary, a bonus, and a single stock-option plan that encourages ownership." To make sure that corporations don't pass options out cavalierly, change the accounting rules and make all options count as charges against earnings. Require executives to hold on to their stock for some extended period of time. Disclose to shareholders exactly what executives are making.[173] Could changes like these really rein in executive pay? *Business Week*, even back in 1992, wasn't particularly sanguine.

"Compensation is a complex and controversial issue," the magazine noted. "Few critics agree even about the precise nature of the problem, let alone its solutions."

But those critics, in the early 1990s, had caught the nation's attention. Executive pay had become an *issue*. In 1992, even candidates for the White House, both Democratic and Republican, felt compelled to express their concern.[174] That concern, in the next year, would actually translate into action. In 1993, the new President, Bill Clinton, signed into law legislation that denied corporations the right to deduct from their income taxes any executive pay over $1 million. The Securities and Exchange Commission, in the same spirit, mandated that companies must reveal more information about just how much their executives are making. Reform finally seemed to be "taking hold."[175] One group that had been railing against excessive CEO pay, the United Shareholders Association, actually "declared its mission accomplished" and closed up shop.[176]

The release of the next year's executive pay statistics seemed, at first glance, to confirm that move's wisdom. In 1994, executive pay would indeed fall, by 25 percent from the previous year.[177] But 1994's modest executive pay levels, *Business Week* would unhappily conclude the following year, represented merely the "calm before the storm." Pay levels had dropped, the magazine explained, because few executives had bothered to cash out their stock option incentives in 1994, an understandable decision since the year's "weak stock market made their options less lucrative." Any surge in the stock market, *Business Week* predicted, would inevitably trigger another wave of windfalls.

The 1993 executive pay reforms, most analysts soon agreed, had made no appreciable difference. Corporate America had not kicked the high-pay habit. In fact, the most visible of the 1993 reforms — the $1 million tax deductibility cap on executive pay — actually fed that habit. The cap, it turned out, only applied to an executive's base salary. Stock options and any other "performance" incentives were all exempted, and that gave corporate boards an even greater incentive to shovel options into executive pay plans. And even the $1 million cap on straight salary could be sidestepped. Corporate boards could simply "defer" salary above the $1 million limit until after an executive retired. At that point, the cap would not apply.[178]

The irrelevancy of the 1993 reforms would come into still sharper relief after the release of the annual executive pay figures for 1995. Average big-time CEO pay, noted consultants at Pearl Meyer, would leap to $4.37 million for the year, up 23 percent over 1994. "Performance-based" incentives, the pay category exempted by the 1993 deductibility cap, accounted for almost all that increase.[179]

Once again, critics from within corporate America raised their voices in protest.

"Compensation inflation is running riot in many corner offices of Corporate America," *Business Week* editorialized. "This has simply got to stop."[180]

But the riot didn't stop. After 1995, in fact, the riot spilled totally out of control. In 1996, executive compensation at the 365 top corporations tracked by *Business Week* rose an average 54 percent.[181] In 1997, average executive pay soared again, to $7.8 million, up 35 percent over 1996. In 1998, the pay parade would march on to even loftier heights. Average chief executive pay topped $10 million for the first time, jumping 36 percent.[182] Top executives, the *Wall Street Journal* reported, cashed out their largest stock option profits ever in 1998. And those option profits figured to swell even higher in the years ahead, since over two hundred major companies had handed their CEOs "megagrants," stashes of stock options worth at least three times an executive's annual salary and bonus.[183] Executives, thanks to such megagrants, were now counting their windfalls not by tens of millions, but by the hundreds. The Gap's chief executive, Millard Drexler, saw his personal bottom-line jump $494.6 million in 1998, a total that included base pay, bonuses, exercised stock options, and unrealized gains on accumulated stock options.[184]

The next year, 1999, brought more of the same. The top twenty CEOs in the United States, *Business Week* reported, averaged $112.9 million each, and that average did *not* include the value of unexercised stock options.[185]

Just how much incentive, angry observers from outside the business community asked, did executives need anyway?

"Is someone not going to work for you if he gets $50 million instead of $100 million?" wondered Tim Smith, the director of the New York-based Interfaith Center on Corporate Responsibility. "How rich do they have to be?"[186]

WOULD ANY PLAYER IN CORPORATE AMERICA have the moxie to step up to the plate and challenge greed in the suites? Reformers, by century's end, saw only one possible countervailing force with enough muscle to make a difference: the institutional investing community. By 2000, America's institutional investors — mutual funds, pension funds, university endowment funds — controlled half the U.S. equity market.[187]

These investors, corporate America's most savvy insiders understood, could pull the plug on incentive excess any time they so chose.[188] In the boom years, they chose not to. Part of that reluctance, noted Robert A. G. Monks, a pioneer shareholder advocate, may have been personal. University decision makers, for instance, routinely "pal" around with the corporate executives they ought to be confronting. But a big part of that reluctance also reflected pure institutional conflict of interest. Universities would rather not upset their corporate contributors.[189]

Other conflicts of interest also come into play. By law, every corporation that sells stock to the public must publicly report to — and face — shareholders once a year. Shareholders can bring resolutions on executive incentives to these annual meetings. Shareholder votes then determine whether these resolutions pass or fail. They usually fail. Why? Mutual funds and other large institutional investors typically give voting responsibility for their holdings to money managers. These money managers vote these shares, almost always, to support corporate management positions.

This pro-management bias may be unavoidable. From the money manager perspective, after all, every corporation could be, someday down the road, a client looking for a new outfit to manage its pension money or 401(k). Why vote against a management position and risk alienating a potential client?[190] And money managers who *already* manage a corporation's retirement fund are seldom going to vote against that corporation, on behalf of some other institutional shares they may manage. Why risk losing a current client?[191]

So no one risks anything.

"We are all victims," financial analyst Marcy Kelly told the *Wall Street Journal* in 1999, "of the excesses and greed the institutional investors allow to take place."[192]

By century's end, some institutional investors were trying to undo the damage. The nation's largest pension system, TIAA-CREF, adopted new policy that called on boards of directors to adopt only "rational" executive compensation policies.[193] America's other giant pension fund, the California Public Employees' Retirement System, also started flexing more muscle. In 1999, Bank of America CEO Hugh McColl took home $76 million, in a year when Bank of America axed nineteen thousand jobs. CalPERS, in protest, vowed to withhold its support from four directors seeking re-election to Bank of America's board.[194] CalPERS, the pension fund's president, Sean Harrigan, would tell Congress in 2003, "is deeply concerned over what appears to be an attitude of entitlement in the executive suite of corporate America."[195] The California pension giant, Harrigan added, would be developing — and sharing — analytical tools that "help identify on a more systematic basis where compensation abuses are occurring."

But few activists within the institutional investment community see these stirrings as a sign of significantly more accountable corporate days to come. One reason: The shareholder resolutions that institutional investors can bring before annual corporate meetings are not binding on corporate boards. Companies can legally ignore shareholder resolutions, even if they pass. In 2002, for instance, ninety-eight shareholder resolutions gained majority support at corporate annual meetings. Corporate boards, reports the Council of Institutional Investors, ignored eighty-four of them.[196]

What corporate managements cannot legally ignore are the votes cast by shareholders for board of directors candidates. Institutional investors have the power, should they ever choose to organize collectively, to depose corporate boards that shower millions upon their executive elites. But corporate governance rules work against that organizing. Opposition candidates for corporate boards, to have their supporters counted, must print up and get into the hands of shareholders their own ballots, an incredibly costly process.

Over the first half of 2003, various public interest groups lobbied hard for rule changes significant enough to democratize corporate board elections. Midway through the year, in July, the federal Securities and Exchange Commission did announce a series of reforms in that direction. But the SEC's changes, even fully implemented, would leave a solid majority of corporate board members, at least three-quarters, "elected" as they always have been elected, in shareholder voting that lacked even the basic trappings of democracy.[197] Insiders would continue to call the corporate shots.

INSTITUTIONAL INVESTORS OPERATE, ultimately, in a business environment where all the "incentives" encourage them to play lapdog, not watchdog. Still, throughout the 1990s, corporate America didn't need to count on conflicts of interest or rigged corporate governance rules to keep potential whistle-blowers quiet and ineffective. Something else, something stronger, gave corporate America a blank check for incentive outages. Something else guaranteed that ridiculously overpaid executives would have no trouble swatting away whatever brickbats came their way. That something else would be the great stock market boom that closed out America's twentieth century. "Good times" made the irrationality of executive excess actually seem rational.

Incentives, after all, are about outcomes. Those who extend incentives intend certain outcomes to take place. If those outcomes do take place, the incentives have succeeded. In the 1990s, the incentives so profusely extended to America's top executives certainly seemed to have succeeded. Shareholder value had unquestionably been increased. Great rewards *for* executives, just as intended, had inspired great deeds *by* executives.

Critics could — and did — dispute this simple-minded cause-and-effect between booming executive pay and booming share prices. To no effect. Share prices were *up*. Executive pay was *up*. The simple-minded, insisted corporate America, were those who disputed the link. And those who disputed the link could only mutter in frustration. The corporate case for excessive incentives would remain credible and powerful, they understood, so long as share prices kept climbing.

"When everybody is making money," conceded one pay critic, Nell Minow, "it's hard to get people upset because some people are making too much."[198]

But what would happen if share prices stopped climbing? If executives were indeed compensated for performance, as corporate America's flacks constantly insisted they were, then executive pay ought to stop rising if stocks started stumbling. Conversely, if stocks seriously stumbled and executive pay continued soaring, who could honestly claim that stock options and retention bonuses, that restricted shares and golden parachutes, that excessive executive incentives, in all their generous glory, "worked" — or were necessary to make America "work"?

A falling stock market, in short, would either confirm that corporate America had finally come up with an incentive system that linked pay and performance or expose that system as a fraud. Which would it be?

The curious, at century's end, would not have to wait long for an answer. In 2000, the millennial year, share prices fell. By every measure, shareholder value plunged. The S&P 500 index, the standard benchmark of corporate well-being, dropped 9 percent. The Nasdaq composite index, the prime thermometer for hot high-tech companies, fell 39 percent. The Dow Jones industrial average, the yardstick for America's most stable companies, down 5 percent. Mutual funds overall, down 15 percent.[199]

Precious few corporations dodged the dip. For shareholders, 2000 was absolutely and undeniably a year to lament. And for America's top executives? What kind of year did they enjoy? The answer would come the following spring.

IN THE 1990S, SPRINGTIME STARTED giving birth to a new media ritual. Every spring, after corporations released their required annual financial statements, major media outlets in the United States would tally up the year's executive pay statistics and rank order the nation's most generously rewarded CEOs.[200] Nationally, *Business Week*, the *Wall Street Journal*, the *New York Times*, the *Washington Post*, *Forbes*, *Fortune*, and *USA Today* all published annual executive pay studies, each one charting a slightly different set of executives, each one defining compensation slightly differently. At the regional level, the *Chicago Tribune*, the *Baltimore Sun*, the *Philadelphia Inquirer*, the *Seattle Times*, and nearly every other major metropolitan newspaper generated local executive pay scorecards, each one spotlighting the biggest local CEO compensation winners.

In the spring of 2001, all these media listmakers essentially had one question on their minds: Would CEO pay reflect the stock market's wretched 2000 — or would CEO pay continue on its merry way? The answer stunned even the most jaded Wall Street observers. Despite the wretched market, executive compensation would once again soar.

In 2000, the *New York Times* reported, chief executives averaged 22 percent raises in salary and bonus — and took home new grants of stock options worth an average $14.9 million. In total compensation, the CEOs at the two hundred corporations the *Times* surveyed averaged more than $20 million.[201] *Business Week* looked at 365 top corporations — and found the same upward momentum. The average CEO, the magazine reported, "earned a stupendous $13.1 million last year."[202] The *Wall Street Journal* reported an 8.2 percent total pay increase.[203] *USA Today*, looking at a different corporate sample, estimated that top executives in 2000 saw their personal bottom lines boosted by 62 percent, to a $36.5 million average.[204]

"Falling stock prices, disappointing earnings and other bad news," the *Washington Post* told readers, "don't seem to be hurting the compensation of many U.S. executives."[205]

Did rising CEO pay *averages* conceal slumping paychecks in those specific industries hit hardest by Wall Street's downturn? Good question. The San Jose *Mercury News*, the newspaper of record in Silicon Valley, offered an answer. Few industries had enjoyed 2000, the year of the dot.com collapse, less than high tech, the paper noted. Over the course of the year, Silicon Valley's 150 top firms saw their shares drop 20 percent.[206] But tech execs did not share that pain. They registered, in fact, their best year ever. The area's top eight hundred-plus executives walked off with $4.8 billion in 2000, averaging just under $6 million each, more than twice what they received the year before.[207]

Individually and as a group, nationally and regionally, across the board and industry by industry, top executives did exceedingly well in 2000 — and no one, a *Washington Post* analysis made clear, could reasonably consider their immense good fortune a reward for performing well. The "base pay" for executives in 2000, the straight salary they received just for showing up at the office every day, accounted for just 10 percent of total executive pay, the *Post* pointed out.[208] This base pay brought the executives the *Post* studied an average of $1.13 million for the year. The remaining 90 percent of the pay executives received, about $9 million, came from *incentives* of various sorts. In other words, America's top executives received, on average, $9 million for "performance" in a year when their performance, by every standard measure, reeked of absolute failure.

Compensation consultants who had in earlier years defended executive excess as "logical and fair" didn't bother trying to justify the stunning new numbers.

"I'm actually a little disappointed," Ira Kay of the Watson Wyatt Worldwide consulting firm told the *New York Times*.[209]

Corporate America's watchdogs, for their part, felt betrayed. Veteran shareholder activist Nell Minow had, earlier in her career, actively pushed for stock option incentives. The more options executives held, she and like-minded reformers had believed, the more attention executives would pay to shareholder interests.

"In my young and innocent days, I really did think that stock options would be a good thing," Minow noted after the release of the 2000 executive pay figures. "But what did I know?"[210]

How did incentives meant to "align" executives with shareholders end up keeping executives floating high while shareholders sank? Options, America discovered in 2000, gave executives as much cushion to coast as incentive to perform. By cashing out options awarded in previous years, executives could comfortably ride out a year or two of poor share price performance.

In the new century's first year, executives would cash out options by the mega-millions, with the most megas going to executives with enough "vision" to sense what the future might bring — or enough inside knowledge to get out while the getting was good. In Silicon Valley, Intel's top five executives exercised over 3 million options in the first half of 2000, "more than seven times the number of options they had exercised the year before," noted San José's *Mercury News*. These shrewd option moves gained the five executives $160 million by September, just three weeks before Intel started announcing bad news about sales.[211] By the end of the year, Intel shares would be down a third.[212]

Executives at Cisco Systems played the same option games. CEO John Chambers alone scored $156 million by unloading options early.[213] Together, the top half dozen executives at Cisco cashed out almost 7 million options before Cisco shares peaked in late March 2000. They cleared $307.8 million in option profits.[214]

Not all executives, of course, could match the exquisite sense of timing of the power suits at Intel and Cisco. With the stock market sinking, some top executives did indeed find themselves holding millions of options they could no longer exercise at a profit.[215] Many options executives had considered surefire windfalls at the start of 2000 had become, by year's end, no more valuable than lottery tickets. In lotteries, of course, most people lose. But corporate America was not about to let executives lose out, even if they had underperformed. In boardroom after boardroom, companies did everything they could, the *Washington Post* reported, "to give their top executives a helping hand."[216]

Out of Black & Decker's helping hand came a million new options for CEO Nolan Archibald, five times more options than he received in 1999. Black & Decker shares had dropped 25 percent. Lucent Technologies doubled the annual option grant award to CEO Richard McGinn. Lucent shares were off 81 percent. In 2000, overall, companies awarded CEOs 55 percent more stock options than the year before.[217]

Other corporate boards went back to the future in 2000 and blessed their executives with simple, old-fashioned cash bonus incentives. That took some doing, since executives over the course of the year hadn't done much worth rewarding. Still, corporate boards were able to rise to the challenge. Some awarded executives bonuses "for implementing Y2K computer bug initiatives." One company actually gave its CEO a bonus for "making sure transition managers were in place once the CEO retired." Overall, CEO bonuses jumped 21 percent in 2000 and added almost $2 million to the typical top executive paycheck.[218]

THE AMAZING CEO PAY FIGURES FOR 2000, careful business observers realized, would be no one-year anomaly. CEO pay figured to stay high well into the new century, even if the stock market kept stumbling. Top executives still sat, these observers explained, on millions of unexercised options, many originally granted while share prices were still rising. Share prices had since peaked — and fallen — but good chunks of the unexercised option stashes would generate sizable profits should stocks up tick even slightly.

"Local executives will likely keep winning the options' jackpot for years to come — regardless of how their stock performs," concluded Silicon Valley's *Mercury News*.[219]

The first executive to hit that jackpot, after 2000, would be Larry Ellison, the CEO of software giant Oracle. In January 2001, Ellison cashed out options granted him in earlier glory days and pocketed $706 million.[220]

Corporate boards took one other little-noticed step, as the new century began, that promised to keep executives in compensation clover for years to come. They redefined the "long" in "long-term" compensation. Throughout the 1990s, top executives had received both annual and "long-term" pay. Salaries and bonuses would come annually, new options and other stock incentives would be awarded once every several years. With share prices rising, as they did throughout the 1990s, these "long-term" plans left CEOs suitably satisfied. Salaries and bonuses guaranteed them a healthy annual cash flow, and, as share prices rose, their options that had not yet vested became more valuable year by year. In 2000, with share prices suddenly falling, everything changed. Executives, in effect, were stuck with "long-term" incentives that now offered no incentive. A most intolerable situation. In response, executives started demanding new long-term incentives *every year*. And corporate boards graciously agreed.[221]

Annual "long-term" incentive awards hand top executives — passionate golfers all — what amounts to performance mulligans, executive suite do-overs.[222] Your company's share price down? If you're the CEO, no need to worry. Your thoughtful board of directors will give you a new batch of options, all exercisable down the road at the current low share price. And if share prices sink even lower next year, your board will give you still another batch of option incentives, all exercisable at an even lower price. Your board, in effect, will keep lowering the performance bar until it finds a height you can jump over — and win the windfall that is your due.[223]

Corporate boards would go a long way down this mulligan road in 2000. The new "long-term" incentive plan deals cut over the course of the year were worth, on average, 49 percent more than the long-term plans set in 1999.[224]

"In other words," the *New York Times* would note in 2001, "2003 is already looking like a good year for executive pay."[225]

SHAREHOLDER VALUE WOULD CONTINUE to droop in 2001 and 2002. Executive compensation would not. In 2001, at the two hundred major companies surveyed by the *New York Times*, profits would be down 35 percent. Median CEO pay at these same companies: up 7 percent.[226] In 2002, a repeat performance. At the one hundred top corporations analyzed by *Fortune*, pay for "middle-of-the-road" CEOs jumped 14 percent, to $13.2 million, in the same year the S&P 500 sank over 22 percent.[227] But these ample CEO pay figures, insiders knew, actually understated the rewards heaped upon America's top executives. Upon America's executive class, over the previous dozen years, corporate America had created a veritable parallel incentive universe, an amazing array of perquisites, or "perks," each one explicitly intended to make life at the top as worry-free as turn-of-the-millennium life could possibly be.

These perks, corporate America believes, make sound business sense. Perks, the argument goes, free executives from life's inconveniences. Executives, freed from daily distractions, have no "incentive" to think about anything else other than corporate success. Perks pump performance! Consequently, within corporate America, no consideration for the welfare of top executives has become too small to be overlooked.

Do executives need help keeping up with life? How about a person, or two, to help? In 1998, MBNA Bank handed CEO Charles Cawley $144,415 for "personal assistants." In 1999, Cawley's personal assistants cost MBNA $159,055. The next year, MBNA's expenditure for CEO assistants dropped to just $123,022. Perhaps Cawley made up the difference from his own pocket. He did take home, in 2000, about $45 million.[228]

Every major U.S. corporation also reimburses executives for whatever financial planning services they might require. In 2000, Citigroup gave chairman Sandy Weill $74,000 — almost twice the income of a typical American family that year — to pay experts to do his personal financial planning. Those experts undoubtedly had their hands full. In 2000, Weill earned $28.2 million in pay and restricted stock, made $196 million more by cashing out options granted in previous years, and collected grants of new stock options valued at $301.7 million.

Executive perks, all together, now add tens of millions of dollars into executive pockets each and every year. These perks, most inconveniently, also add to executive tax liabilities, since many of them count as "income" at income tax time. This poses a problem. How can executives feel appropriately incentivized if they have to pay taxes on their perks? Many corporate boards don't bother finding out. They simply hand their executives the extra cash they need to offset any taxes that might be due on the perks.[229]

Despite such thoughtful gestures, taxes still present an enormous aggravation for America's top executives, the prime reason why corporate boards have perfected still another perk, the most lucrative executive perk of all: "deferred compensation."

All 401(k) plans — the deferred pay plans open to average corporate employees — are subject to strict limits. A plan participant can defer and invest, tax-free, only so much salary each year. In 2002, for instance, no employees, be they CEOs or stock boys, could defer more than $11,000 in earnings through a company 401(k) plan. Yet individual CEOs that year, unlike average employees, were able to defer taxes on many millions more than that $11,000. And how is that possible? Under current law, corporations can establish special pay deferral plans only open to top executives. No limits apply to these plans. Executives can shelter as much of their cash compensation as they please.[230] Individual tax-avoiding CEOs, the *Wall Street Journal* reported in 2002, have turned these deferral accounts into parking lots for "tens of millions of dollars."[231] Just how many dollars overall have poured into deferred executive pay accounts? The estimates, the *New York Times* notes, run from "the tens of billions" to "the hundreds of billions."[232]

In theory, all these dollars in executive deferral plans sit at risk. If a company goes belly-up, an executive could lose every deferred dollar.[233] Corporate boards have moved, predictably, to eliminate this unfortunate risk. They simply reimburse executives for the cost of insuring their deferred pay stashes. One example: The CSX transportation company handed CEO John Snow — later named U.S. secretary of the treasury by President George W. Bush — $421,000 to offset the cost of insurance Snow bought to guarantee his deferred pay should CSX be taken over by another company.[234]

Corporate deferred pay thoughtfulness doesn't end here. Corporations don't just sit on the money executives divert into their deferred pay accounts. They pay interest on it, at higher than standard market rates. General Electric, in the mid 1990s, guaranteed CEO Jack Welch a sweet 14 percent on his deferred pay dollars.[235] G.E. could be even sweeter. In 2000, Welch's last full year before retirement, General Electric gave him $65.5 million in pay and restricted stock as well as new options that could be worth as much as $274 million. Welch realized another $57 million by exercising options already in his pocket.[236] Was all that enough to show G.E.'s appreciation for services rendered? Not by a longshot. G.E. shelled out another $1.3 million to pay Welch's life insurance premiums.[237] God forbid he should drop dead and leave his heirs without a meal-ticket.

"Why does an executive need to be so well compensated and then have all these various and sundry things paid by the company?" Ann Yerger, the research director at the Council of Institutional Investors, would ask at century's end. "Most of us pay our expenses out of our own pockets — that's what our salary is for."[238]

Added Jamie Heard, the head of Proxy Monitor, an adviser for institutional investors: "There's just one word for most of this — greed."[239]

AMID THE PERKS, AMID THE OPTIONS, amid the bonuses, amid the greed, corporate America has continued to insist, right into the new century, that rich rewards remain absolutely essential to business success. How else, if not with lavish incentives, can tip-top performance be coaxed out of America's executive suites? Year after year, corporations have kept pumping up the windfalls, dumping millions upon millions on executives already sated with billions. By early in 1998, for instance, Dell Computer CEO Michael Dell already owned $2.34 billion worth of his company's shares.[240] Enough incentive? Apparently not. The Dell board awarded CEO Dell options worth $33.5 million in 1998 and another $105.4 million worth in 1999.[241] "We pay for performance here," a Dell flack proudly proclaimed, "and Michael is a phenomenal CEO."[242]

But what possible purpose, asked *Business Week* columnist Allan Sloan, could more options serve — "other than enriching Michael Dell"?

"He already owns 190 million shares, his name is on the building and his $16 billion stake offers him ample incentive to get the stock price up," Sloan observed. "Will he defect to Gateway or Compaq if he doesn't get options?"[243]

"How much more incentive do you need," adds Patrick McGurn of Institutional Shareholder Services, "when you already own billions of dollars' worth of stock?"[244]

Is it true, a business journalist asked Tyco International chief executive L. Dennis Kozlowski at a CEO forum, before his 2002 tax evasion indictment, "that at a certain level it no longer matters how much any of you make, that you would be doing just as good a job for $100 million less or $20 million less?"

"Yeah," replied Kozlowski, "all my meals are paid for."

So why was he still striving for tens of millions more? In the game of life, Kozlowski explained, the money is "a way of keeping score."[245]

At the turn of the century, Kozlowski would by no means be the only top executive "keeping score." "How much the boss makes," *Business Week* would note, "has become something of a scorecard."[246] A scorecard with a difference. Most games we play at some point end. In bridge, you make rubber, you win. In baseball, you score more runs in nine innings, you win. In basketball, you hit more points by the final buzzer, you win. But the game never ends in corporate America. No buzzer ever sounds. No CEO, consequently, can ever make enough to win. Some other CEO is always just ahead, waiting to be caught. Some other CEO is always right behind, threatening to catch up. In this game without end, no incentive reward can ever be enough. CEOs will always need more. On corporate America's playing fields, under current rules, they'll always get it.

Some observers felt these rules would change, and dramatically so, after Enron's collapse late in 2001 triggered over six months of almost daily corporate scandal headlines. The rules would actually change, somewhat, the summer after Enron, with the passage of the Sarbanes-Oxley corporate accountability bill. This legislation did ban a host of accounting and corporate governance practices that had contributed, over the years, to executive excess.[247] But the Sarbanes-Oxley reforms would place no quick or meaningful brake on executive incentives. That became readily apparent a year later, when news reports tallied the first executive pay scorecards for the 2003 corporate fiscal year.[248]

At H.J. Heinz, the ketchup king, top executive W. R. Johnson saw his bonus jump 316 percent in 2003 at the same time the company's shares were sinking nearly 29 percent. Annual incentives at Heinz, the company insisted, reflect "clear performance measures aligned with the creation of shareholder value."

At Applied Micro Circuits, a computer parts maker, share values dropped 59 percent in fiscal 2003. The company rewarded CEO David Rickey with 8 million new stock options. This option generosity, potentially worth $56.6 million, would "serve as a meaningful incentive," the company explained, "for employees to remain."

At cereal giant General Mills, share prices actually increased in fiscal 2003, by 3.3 percent. The company's directors, to show their gratitude, upped CEO

Stephen Sanger's bonus 73 percent and threw in new options worth $35.4 million. These rewards, General Mills asserted, were "reasonable in light of performance and industry practices."

Late in August 2003, two weeks after these outrages surfaced, one familiar and well-respected figure in corporate America, Richard C. Breeden, would release what he hoped would be an antidote to over two decades of executive incentive excess. Less than a year earlier, the federal judge overseeing fraud charges against WorldCom, the telecom giant that had gone bankrupt midway through 2002, had asked Breeden, a veteran corporate consultant and a former chairman of the federal Securities and Exchange Commission, to recommend reforms to fix the deeply troubled WorldCom.

Breeden took his task to heart. He saw an opportunity, as WorldCom's official "corporate monitor," to fix what ailed all of corporate America, not just one company. And what ailed WorldCom and the rest of corporate America, Breeden concluded, was an incentive system run totally amuck. WorldCom encapsulated everything wrong with corporate incentives.[249] Lavish stock option grants had made WorldCom CEO Bernard Ebbers one of America's richest men. WorldCom relished handing out "retention" grants as well. The company had incentivized Ebbers and other WorldCom executives with a retention "slush fund" that totaled nearly a quarter-billion dollars. Golden parachutes — $50 million for Ebbers alone — and sumptuous perks also abounded. All these incentives, Breeden noted in his August 2003 report to U.S. District Court judge Jed Rakoff, did not encourage excellence. These incentives, instead, had encouraged a "reckless pursuit of wealth." And that reckless pursuit, Breeden found, had "created a climate conducive to the fraud that occurred," a fraud that ultimately cost investors $200 billion in share value.

The fix? Breeden recommended, and U.S. District Court judge Rakoff subsequently ordered, nothing less than the wholesale dismantling of WorldCom's entire executive incentive structure. In the new MCI, the company that would arise from WorldCom's bankruptcy, stock options would be banned for five years — and could not be reinstituted unless shareholders approved their use in advance. Retention bonuses and "all personal use of corporate aircraft and other corporate assets" would also be prohibited, and executive severance agreements would be subject to strict limits.[250]

Breeden's report would not reject totally corporate incentive orthodoxy. The new MCI, his report would note, would need pay incentives to "ensure that compensation is linked to superior performance." Toward that end, Breeden encouraged the MCI board to consider performance targets that link executive pay directly to profitability, growth in market share, and several other specific yardsticks. But Breeden would not completely swallow corporate America's pay-for-performance mantra. Even the most outstanding performance, his report would caution, must not be used to justify levels of compensation that violate "overall reasonableness."

To ensure this "reasonableness," Breeden proposed his most unexpected recommendation of them all. The new MCI board, his report declared, must set a lid on "total compensation from all sources" for its top executive, a "maximum dollar amount for any single year." Breeden would set this maximum — the first ever for the CEO of a major American corporation — at a generous level. The MCI chief executive, he noted, should receive "not more than $15 million" a year, though the board, he added quickly, would "be free to set a lower number."[251]

WorldCom's new incentive structure, Breeden urged business leaders at the official release of his 149-page report, ought to become a model for every major American corporation.

"We hope all of corporate America," he noted, "will look at it very carefully."[252]

Other observers, that same summer of 2003, would echo Breeden's call for a cap on executive pay. *Washington Post* business columnist Steven Pearlstein, for one, called excessive pay "the original sin of corporate malfeasance," the incentive that "warps the judgment and the ethics of executives."[253] He implored shareholders at America's largest corporations to insist that annual executive pay be limited, for the next five years, "to $1 million in salary and fringe benefits, $1 million in performance-based bonuses and $1 million in restricted stock." Only this sort of $3 million cap, Pearlstein noted, "would end the arms race that companies use to justify sky-high pay."

Corporate America's movers and shakers would blissfully ignore Pearlstein's cap proposal — and Breeden's as well. They would, instead, spend 2003 arguing that the entire corporate reform movement triggered initially by Enron's collapse made higher executive pay more necessary, and justifiable, than ever.

"CEOs," noted Ralph Ward, the publisher of *Boardroom Insider* newsletter, "are saying that because of reforms, there's more risk and more time on the job, and that justifies more pay. Boards tend to go along with that."[254]

In other words, later for incentives. In post-Enron America, top executives simply *deserve* more.

Our society's most generously rewarded, to be sure, have always felt they deserve more. Do they? We take that question next.

THE GREEDY AS DESERVING

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

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

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

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

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

And rare.

Or so corporate America would add. People who combine determination, intelligence, ability, and boldness, corporate leaders believe, aren't standing at every corner. CEOs, *Corporate Board* magazine explains, "are all individuals with a scarce talent." They deserve to be compensated as the "scarce high-talent individuals" they are.[3]

So quit quibbling, America, about excessive executive salaries.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Jerry Levin is another.

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

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

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

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

Jerry Levin.

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

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

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

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

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

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

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

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

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

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

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

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

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

Mere working folk get "clean rooms."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

So, perhaps, do school superintendents.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

These are not easy questions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Even, sometimes, among executives themselves.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

But what exactly was Eisner a genius at?

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

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

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

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

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

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

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

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

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

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

That must be genius.

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

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

Bezos apparently felt those vibrations.

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

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

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

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

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

Still, a profit was a profit.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We make other misjudgments about wealth as well.

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

And what a huge role that is.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Maybe George W. knows.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

And kept it.

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

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

The Greedy as Benefactors

The good things in life, apologists for inequality would have us believe, we owe to greed. The greedy benefit us all. They bring us sweetness and light, progress and hope. Their tireless strivings to accumulate wealth leave us more prosperous, compassionate, and cultured than we otherwise would be. We are all enriched, friends of fortune insist, when some of us become far wealthier than others. Societies where wealth concentrates need not apologize. They should, instead, encourage even greater concentration.

"Too often we forget that economic inequality is not a moral imperfection to be cut out of society by doctors of economic and social healing," the business journal, *Barron's*, assured its corporate readers in 2001. "It is a practical and moral mechanism for the increase of human wealth and the advancement of the human condition."[1]

"Greed is healthy," as Wall Street financier Ivan Boesky, amasser of a $300 million fortune, once noted. "You can be greedy and still feel good about yourself."[2]

You can feel good about yourself, defenders of inequality posit, for several reasons.

First, great fortunes don't just sit in treasure chests. Great fortunes fuel investment and create jobs. The more freely wealth accumulates, the stronger our economy.

Second, contributions from the wealthy drive charitable good works. The greater the fortunes of the fortunate, the more good work charities can do.

Third, the wealthy, as generous patrons of the arts, nurture cultural achievement. The wealthier our wealthy, the finer our culture.

Great wealth, in other words, may not make a reliable incentive. The rich may not truly deserve their riches. But we need inequality anyway, assert those who fawn over fortune, because inequality "works." We all benefit when some of us have more, much more, than others.

Do we? If inequality does indeed benefit us all, then we ought to be living today in the best of times. We have, after all, become far more unequal here in the United States than we used to be. Our inequality has been growing, and rapidly so, for well over a generation. If concentrations of great wealth truly benefit us all, we ought now, as Americans, to feel more financially secure than we have in quite some time. A million points of light ought to be warming our hearts. Great art ought to be dazzling our senses.

How secure, how warm, how dazzled, in our actual lives, have we become? Let us see.

Jobs and Paychecks

A century ago, in Robber Baron Manhattan, a wealthy banker's daughter invited a *New York Herald* reporter by for a sneak preview of her latest new wardrobe. Out for viewing came one magnificent gown after another. Magnificent dresses in silk, chiffon, satin, and lace, "hand-embroidered, beaded, ribboned, and encrusted with diamonds."[1] The crowning touch: a coat cut from white unborn baby lamb, lined with ermine.

The price tag for the new wardrobe? About $2 million, a stupendous sum in 1906.

"Money spent in this way is not lost," the banker's daughter hastened to assure the reporter, "for if the dressmakers and milliners and shoemakers had no demand for their work the wheels of progress would necessarily be hampered."[2]

This banker's daughter would feel right at home, ideologically, if not fashionably, in twenty-first century America. In our corporate boardrooms, in our legislative chambers, even, sometimes, in our union halls, we have convinced ourselves, beyond a shadow of a doubt, that wealthy people spin our nation's economic wheels. Without rich people, and plenty of them, the economy would sputter to a stop.

Don't count me as an "enemy of the wealthy," Pennsylvania's most powerful Teamster leader told the *Philadelphia Inquirer* in 1998, "poor people don't build companies that hire people."[3]

Having rich people among us, we have come to believe, helps poor people — and everybody else, too. Rich people spend more than the rest of us, our leaders inform us, and the spending they do creates jobs and prosperity. Rich people also save more than the rest of us, and the savings they make stimulate investment. That investment creates still more prosperity. Want that prosperity to continue? Just boost the capacity of rich people to spend and save — by reducing tax rates on the wealthy. Want to jeopardize whatever prosperity we have already achieved? Ask the rich to pay more in taxes.[4]

"They say, 'Tax the rich,'" one wealthy Californian, actor Mickey Rooney, complained midway through the 1990s. "Don't they understand that the rich are the only people who can afford to give them jobs?"[5]

Ludwig von Mises, an Austrian economist who taught in the United States after World War II, made much the same point a half century earlier, in somewhat more ponderous prose. Societies that accept and applaud growing gaps between the wealthy and everyone else, he contended, actually improve the lives average people live.

"Inequality of wealth and incomes is the cause of the masses' well-being, not the cause of anybody's distress," von Mises argued in 1955. "Where there is a 'lower degree of inequality,' there is necessarily a lower standard of living of the masses."[6]

Did Mickey Rooney, back in the 1950s, ever read von Mises on the masses? Not likely. Few people paid much attention to Professor von Mises when he lectured at New York University. The Austrian was considered, at the time, somewhat old-fashioned, a throwback to less enlightened days. But times change. Our most politically powerful economists today revere Ludwig von Mises. His observations about inequality now drive our economic policies.[7] Rich people, our policy makers assume as self-evident fact, "grow" the economy. The richer they become, the bigger the economic pie. The bigger the pie, the more for everyone, even if the wealthy walk off with the biggest pieces.

In the closing years of the twentieth century, America's rich did become richer, phenomenally so, and America's economic pie did grow, just as the policy makers had predicted. But what about those "masses"? Did America's growing economy usher in the new epoch of mass well-being the cheerleaders for concentrated wealth had promised? Many observers, at century's end, were firmly convinced it had. Wealth, they reported, wasn't just "trickling down" from on high. Wealth was gushing into average American households. Inequality, they rejoiced, had "worked."

"AS THE AMERICAN CENTURY DRAWS TO A CLOSE, times have rarely been better," *Business Week* rhapsodized in 1999. "Eight years into an expansion that just won't quit, the robust U.S. economy is the envy of the world."[8]

This expansion would become, one year later, the longest uninterrupted period of economic growth in America's history. This record-breaking blast of prosperity, commentators proclaimed, had essentially wiped out unemployment.

"This boom has been so long and so good that it has reached down to virtually every person in society," Cornell University economist Richard Burkhauser concluded. "Almost all the able-bodied people who are looking for jobs can find them."[9]

Boosters of America's economic status quo could barely contain their glee. Were rich people getting richer in this boom that would not end? Yes, "inequality is increasing," economists Ken Deavers and Max Lyons acknowledged, but what of it? Living standards, the two crowed, "are rising across the entire income distribution."[10]

Was the middle class disappearing, as the worry-worts kept charging? Absolutely, gloated *Investor's Business Daily.*

"The middle class is shrinking," the journal smugly noted, "because it's getting richer."[11]

America, other celebrants exulted, had become a nation of investors.[12] Over half of America's middle class families, 53 percent, held stocks in 1998, up from less than a third, 31 percent, at the end of the 1980s.[13] Shares of stock now accounted for 54 percent of all household financial assets.[14] The new ownership of corporate America, smiled Chrysler Chairman Robert Eaton, "is rapidly becoming most of America."[15]

These new "owners" were speaking a vocabulary that most Americans would have found unintelligible before the 1980s. Mutual funds, IRAs, 401(k)s, Keoughs — one new option after another for amassing wealth. And amassing wealth seemed to be just what average Americans were doing. Between 1984 and 1997, the dollar value of the stocks held by mutual funds multiplied thirty times over.[16] By 2001, over 37 million Americans were regularly stashing away dollars in 401(k)s.[17] And middle class families were buying more homes, too. By September 1999, almost two-thirds of America's 103 million households owned their own homes. America had never seen such high home ownership rates.[18]

Could a more robust prosperity even be imagined?

"These are the best of economic times," noted Marc Zandi, the chief economist at one respected economic consulting firm, "by any measure."[19]

Who could doubt that? Certainly not the President for most of the 1990s, William Jefferson Clinton. "America's middle class," the President told the nation in 1997, "is rising fast."[20] America, President Clinton added in his 1999 State of the Union, "is working again" — "with nearly 18 million new jobs, wages rising at more than twice the rate of inflation, the highest home ownership in history, the smallest welfare rolls in 30 years, and the lowest peacetime unemployment since 1957."[21]

Two years later, just days before leaving office, President Clinton would cast a final proud look back.

"Unemployment is at a 30-year low," the President told a student group, "we have 22.5 million new jobs, the longest economic expansion in history, the lowest minority unemployment ever recorded, the lowest female unemployment in 40 years."[22]

All this should have been cause for a raucous national celebration. But Americans, strangely enough, weren't celebrating. Amid American history's "longest economic expansion," inside the workplaces and neighborhoods where average Americans labored and lived, journalists could find few people cheering.

"This is America's Golden Age," a puzzled *New York Times* noted early in the new Bush Administration. "So if things are so great, why don't we seem pleased?"[23]

"Circumstances just keep getting better," the *Times* added, "and Americans just keep complaining."

What was going on here? Grousing, the *Times* concluded, must be hard-wired into human nature — or, at the least, the central nervous system of the American character.

"The American character may be so fundamentally entwined with striving," the *Times* hypothesized, "that we will grouse no matter how much better circumstances get."

Had Americans fallen victim to some debilitating post-success syndrome? Is that why they weren't cheering America's record prosperity? Or was there some other, some simpler explanation behind why average Americans weren't celebrating? Could it be that inequality had *not* improved average American lives? Could it be that average Americans had little, if anything, to celebrate?

LITTLE TO CELEBRATE? What about all those statistics? The rising family incomes. The millions of new jobs. The record homeownership rates. The overflowing mutual funds. Economists had never seen such numbers. Average Americans, they believed, ought to be down on their knees, thanking their lucky stars. But average Americans, *even before* the economic downturn that began in 2001, were thanking no one. How could that be? How could average Americans and economists see the world so differently?

That difference might have been a matter of perspective. Economists read statistics. Average Americans have to live them. That can be hard.

Consider, for instance, those statistics on rising family incomes. The key numbers here, the annual figures for household income, do show increases over time.[24] In 1980, the nation's most typical households earned $17,710. This national "median household income" did indeed double, and then some, to $42,151 over the next twenty years.

An impressive leap? Not quite. These dollar figures don't take inflation into account. If we adjust for inflation, the picture changes. Household income still increases over the course of the 1980s and 1990s, but only by $7,000. How significant an increase, over twenty years, is $7,000? Not very. To move from $35,238, the inflation-adjusted 1980 household income, to the $42,151 median income of 2000, household revenues inched up, on average, a meager $346 a year — a less than 1 percent annual income increase.

Still, an increase is an increase. So can we conclude, along with corporate America's cheerleaders, that average Americans were, at century's end, making more money than they made back in 1980? We could, but we would be wrong.

Average Americans were actually making *less*, on an hourly basis, at the end of the 1990s than they made in 1980. In fact, Americans were earning less for their labor at the end of the 1990s, after nearly twenty years of "prosperity," than they earned in the early 1970s.

In 1973, American "production and nonsupervisory employees" — about 80 percent of the nation's workforce — averaged $13.91 an hour, in dollars inflation-adjusted to 1999 levels. This hourly rate, over the next twenty years, shriveled all the way down to $12.50 in 1995, before bouncing back up a bit, to $13.24, in 1999.[25]

Business commentators, at the time, enthusiastically hailed this late 1990s uptick in wages. The same prosperity that was enriching the rich, they exclaimed, was also enriching average Americans. A premature conclusion. In 1999, after factoring in inflation, most average Americans were still making over $56 less a week, almost $3,000 less a year, than what they earned in 1973.[26]

The widely lauded late 1990s uptick in wages would not, in any case, last particularly long. Wages for average Americans would be stagnating once again by century's end. In 1999, only employees making more than $65,000 a year, less than a tenth of the total workforce, actually saw their paychecks register a real increase.[27] In 2000, the median wages of America's 90 million nonsupervisory workers, "ground to a virtual halt, climbing by less than a tenth of a percent."[28] In 2001, production and non-supervisory workers in America's private sector would still be earning less, in average weekly earnings adjusted for inflation, than they earned in 1973.[29]

All these wage numbers do raise an obvious question: If hourly wages have been sinking and stagnating, how could typical American household incomes be rising, even by a paltry 1 percent a year? What can explain this apparent discrepancy? Only sheer hard work. American household incomes rose slightly between 1980 and 2000, despite lower real wages, because average Americans devoted more of their hours to working.

Once upon a time, an average American family could live a middle class life off the paycheck of a single breadwinner. By the 1990s, that once upon a time had disappeared. At century's end, according to Census Bureau data, only 28 percent of middle-income families were getting by with just one wage-earner — and most of these single-earner families had no choice in the matter. They sported only one parent.[30]

In the 1990s alone, average couples upped their hours on the job the equivalent of seven extra workweeks a year — and all these added hours, one business journal noted, didn't count into the mix "commuting or the time spent dealing with e-mail or talking on cell phones."[31] Americans, by the end of the 1990s, were spending "more time on the job than workers anywhere else in the industrialized world."[32] One 1999 report from a United Nations agency concluded that Americans were working two weeks a year more than the Japanese, once considered the world's leading workaholics, and an incredible eleven more weeks, or over four hundred more hours a year, than average Germans.[33]

No wonder average Americans weren't cheering their good fortune. They were too exhausted to exult.

THE CHEERLEADERS FOR INEQUALITY are certainly a persistent bunch. Real hourly wages may still trail their early 1970s levels. Breadwinners may be working many more hours. But none of this, the ideologues assure us, means that average Americans aren't better off. After all, they point out, *total* compensation is up.

Total compensation, the argument goes, tells us much more about the actual well-being of average Americans than hourly wages — or even household income totals. Hourly wage and household income figures don't include fringe benefits. *Total compensation* numbers do. American workers, Jerry Jasinowski, the president of the National Association of Manufacturers, noted proudly midway through the 1990s, "nowadays receive a much greater share of their compensation in the form of various benefits." If you take these benefits into account, Jasinowski contended, workers were actually better off in the 1990s than they were in the early 1970s, when hourly wages were higher.[34]

W. Michael Cox, the chief economist at the Federal Reserve Bank of Dallas, could not have agreed more. He spent a good part of the late 1990s — in his book, *Myths of Rich and Poor*, and on the interview circuit — arguing that increases in nonwage benefits helped prove that average Americans were doing quite a bit better than simple wage and income data might suggest.[35]

Were cheerleaders like Cox on to something? Have more generous nonwage benefit packages offset, for average Americans, years of falling and stagnant real wages? The numbers, at first glance, appear to make a persuasive case for the Cox best-of-times contention. Employers, by century's end, *were* spending more money on employee benefits than they did back in the early 1970s, when wages were peaking. But these increasing employer outlays for fringe benefits were not actually improving the benefits employees received.[36] Companies did not spend more on benefits because they were adding new benefits or enhancing old ones. Companies spent more on benefits primarily because the most costly fringe benefit in American workplaces — health care — was costing them more to provide. Throughout the 1980s and early 1990s, companies that offered health care benefits found themselves forced to expend more and more dollars just to maintain their existing health insurance benefit programs.

Many businesses, as the 1990s progressed, simply stopped making this maintenance effort. They began shifting the cost of providing health care insurance onto the backs of their employees. After 1992, employer outlays for health insurance actually dropped.

The numbers tell the story. Throughout the 1980s and early 1990s, with health care costs rising rapidly, employer expenditures for health care benefits steadily increased, from $1.07 an hour in 1979, in inflation-adjusted dollars, to $1.35 in 1989, then to $1.52 in 1992. That 1992 figure would mark the high-water. By 1998, employers had cut back on their health care expenses significantly, despite continuing increases in the cost of health care. In 1998, employers shelled out, on average, only $1.30 an hour to provide health care benefits for their employees.[37] With fewer employer dollars going into health care benefits, fewer employees could count on health care coverage. By 2003, the Robert Wood Johnson Foundation would later report, nearly a third of Americans under sixty-five were going regularly without health insurance for months on end.[38]

With retirement benefits, the second biggest "fringe" historically available to American workers, the erosion process started even earlier. In 1979, employers expended $1.13 an hour on retirement benefits, after adjusting for inflation. They spent, ten years later, only 95 cents an hour on retirement security and even less, just 84 cents an hour, in 1998.[39]

Employers realized this fairly massive savings by fundamentally restructuring their retirement systems. Up until the 1980s, most major companies had tied their pension benefits to years of service and average final pay.[40] In these "defined benefit" plans, employees knew exactly where they stood. A typical plan, for instance, might guarantee employees who hit age sixty a pension that equaled 2 percent of their final pay for each year they had spent on the job. A sixty-year-old with thirty years could, under such a plan, retire with an annual pension that equaled 60 percent of that employee's final pay.

To finance such "defined benefits," employers and employees typically each made contributions into a single, company-wide pension fund. The dollars in the fund would be invested. If the investments did well, the company would have more than enough to meet its ongoing pension obligations. If the investments did poorly, the company still had to mail retirees their checks. In traditional defined-benefit plans, in other words, employers carried responsibility for their workers' retirement security.

In the 1980s and 1990s, a growing number of corporations decided to sidestep this responsibility. They created new-style retirement programs. No longer would management guarantee workers a specific pension benefit. Companies, instead, would guarantee only a specific annual contribution into an individual investment account for each worker. In these new "defined contribution" plans, workers would bear full responsibility for investing the dollars in their individual accounts. Those workers who invested their account dollars wisely, the theory went, would eventually be rewarded with an overflowing pot of retirement gold. But if that pot was not overflowing, employees would have to make do with whatever dollars the pot was holding.

Some employees welcomed these new "defined-contribution" plans. But many others, particularly veteran workers, felt far better off under their employer's traditional defined-benefit plan. This plan already guaranteed them, after all, a specific, significant pension once they hit retirement age. Why put that guaranteed retirement security at risk?

To be fair to all employees, those corporations that wanted to go the defined-contribution route ought to have let older workers, if they so chose, remain with the company's original defined-benefit plan. But that would have increased, considerably, the corporate outlays necessary to meet pension obligations. Companies would have had to maintain, far into the future, both defined-benefit and defined-contribution programs. Companies eager to go with defined-contributions, as a result, faced a dilemma. They could spend more on pension benefits — by giving veteran workers the right to choose the retirement plan that best fit their needs — or they could "give long-term workers a raw deal."[41]

Many corporations chose the raw deal. In 1978, defined-benefit plans covered 30 million workers. That number had slipped to 23 million by 1998. Over those same years, the number of workers in defined-*contribution* plans zoomed from under 20 to over 50 million.[42] These numbers thrilled business commentators. They saw, in the soaring numbers of new, individual defined-contribution retirement accounts, a brave new world of mass investing. Workers were taking control of their own retirement futures! In this brave new world, mere workers could become millionaires, simply by setting aside a few dollars a month in their 401(k)s.

The 401(k) would become, in the closing decades of the twentieth century, America's most celebrated fringe benefit. This simple variation on the defined-contribution model had begun, humbly enough, as a minor provision in a 1978 tax bill.[43] Workers, Congress concluded that year, might save more if they were allowed to defer taxes on their savings. The newly created 401(k) made these deferrals easy, by allowing workers to park a chunk of their paychecks in a special personal account that would grow, tax-free, until retirement time. Congress never expected the 401(k) to replace the traditional, company-guaranteed pension. The 401(k) would merely, Congress figured, supplement traditional retirement plans. But corporate America had different ideas. The new 401(k)s, companies quickly realized, gave them a means to provide retirement benefits at less than half the cost of traditional pensions.[44] Instead of maintaining costly defined-benefit plans, companies could contribute relative pittances to employee 401(k) accounts and be done with their retirement security obligations.[45]

The 401(k) retirement rush would soon be on. By 1998, over a quarter of America's 100 million private-sector workers, 27 percent, had a 401(k) at work but no pension. Only 15 percent of America's workers had what Congress originally intended, both a traditional pension and a 401(k).[46]

Those 401(k) millionaires, in the meantime, would be few and far between. The average individual 401(k) account, the National Defined Contribution Council reported in 2000, held a $49,160 balance.[47] The Employee Benefit Research Institute added, in a report released the next year, that 44 percent of individual 401(k)s held less than $10,000 and another 14 percent not more than $20,000.[48]

Some older workers, to be sure, did accumulate somewhat larger 401(k) nesteggs. Workers in their forties, the Employee Benefit Research Institute noted, averaged about $62,000 in their 401(k)s at the start of the new century. But this $62,000 hardly guaranteed an uninterrupted string of happy, secure golden years, as an analysis conducted by T. Rowe Price, a Maryland-based financial services company, rather vividly demonstrated. Suppose, this analysis noted, that a forty-five-year-old with $62,000 in a 401(k) had the wherewithal to put an additional $5,000 into this account every year until age sixty-five. Suppose that the investments in the 401(k), over these years, returned 9 percent. At age sixty-five, based on these rosy assumptions, the worker would have a 401(k) worth about $600,000. Even if this worker then limited retirement spending to $36,000 a year, T. Rowe Price concluded, the worker would still have a three out of ten chance of running out of money after twenty years of retirement.[49]

In short, the only way average forty-five-year-olds with 401(k)s could ensure their retirement security would be by planning to die early.

Most Americans, of course, don't want to have to die early to enjoy their golden years. But they may have to reconsider. So suggests research on retirement savings that New York University economist Edward Wolff released in 2002.

Wolff examined *all* the wealth, not just the 401(k) nesteggs, that working Americans age forty-seven and over had accumulated for their retirements by the end of 1998, the latest year with full statistics available. Wolff expected these older Americans to be better prepared than their counterparts in the early 1980s. After all, a sizeable proportion of them were covered by 401(k)s or some other sort of defined-contribution plan, most of these dollars in these plans were invested in stocks, and stocks, between the early 1980s and the end of 1998, had soared, up 248 percent from 1989 to 1998 alone.[50]

But Wolff did not find what he expected. Working Americans who were forty-seven to sixty-four in 1998 actually held less retirement wealth than Americans who were forty-seven to sixty-four in 1983.[51] Between 1983 and 1998, the typical American household headed by an adult nearing retirement saw an 11 percent dip in accumulated retirement wealth, from $184,200 to $171,600.[52]

To live comfortably in retirement, financial counselors often advise, a typical family needs an income flow that equals about 80 percent of the family's pre-retirement income. Relatively few American families nearing retirement at century's end, Wolff's data show, came anywhere close to meeting this 80 percent standard. In 1998, only 38.2 percent of families nearing retirement had the wherewithal, between their accumulated wealth and their expected pension and Social Security benefits, "to replace at least three-quarters of their current income at retirement."[53]

By century's end, typical American families faced less retirement security, not more, just as they faced less health security, not more. The increasing share of "total compensation" devoted to fringe benefits had not, in the closing decades of the twentieth century, offset the pinch — and pain — of stagnant real wages. Benefits, as experienced by average Americans, did not advance in the 1980s and 1990s. They eroded.

GOOD THINGS HAPPEN WHEN JOBS BECOME PLENTIFUL. With jobs abundant, lousy jobs no longer seem such deadend traps. Workers know they can always just leave a miserable job — and likely find a better job elsewhere. Employers know that, too. So they do their best to keep their jobs attractive and their workers happy. The result? Higher wages, heftier benefits, a better deal for all working people.

So what went wrong in the 1980s and 1990s?

These two decades saw an amazing string of "boom" years. For all but twenty-two months in the 1980s and all but eight months in the 1990s, the U.S. economy expanded year after year, creating jobs by the millions.[54] The nation's official unemployment rate dipped below 5 percent in 1997 and kept falling, almost sinking under 4 percent, on an annual basis, in 1999 and 2000.[55] Jobs, at century's end, would be more plentiful than they had been in over a generation. Wages, as a consequence, should have been soaring. And new and improved fringe benefits should have been raining down upon workers. But they weren't. Wage rates, even after a run-up at the end of the 1990s, still didn't match, in real purchasing power, wages from the early 1970s.[56] And benefits were shrinking, not expanding.

How could this be happening? In the past, more jobs had always meant more smiles. Why wasn't America smiling this time around? The sharpest analysts knew the answer. America wasn't smiling because jobs had changed. Over the course of the 1980s and 1990s, corporate America essentially redefined the character of work in the United States.

A job, back in the 1960s, had meant forty hours of work a week — and a reasonable expectation that you could keep working those forty hours week after week, year after year, if you did your work well. A job had meant serious side benefits as well. A decent pension to reward your years of loyalty. Enough health insurance to protect your family.

In the 1980s and 1990s, fewer and fewer jobs matched this classic, all-American workplace standard. The nation's biggest companies, the firms that had historically provided the good jobs that Americans coveted, suddenly stopped creating the jobs that prosperity was supposed to bring. Between 1980 and 1992, America's five hundred largest corporations more than doubled their assets — from $1.18 trillion to $2.68 trillion — and, at the same time, slashed their payrolls by over a quarter. The number of jobs at the nation's top five hundred companies dropped from 15.9 million in 1980 to 11.5 million in 1993.[57]

This massive job-shedding introduced a new concept, downsizing, into America's business discourse. In downsizings, jobs disappeared, the work remained. That work could be accomplished, corporate America came to realize, without the bother — and cost — of having to keep full-time staff on the payroll. And this realization helped popularize still another new approach to getting work done, outsourcing. By 1996, 86 percent of America's large companies were farming out regular work to subcontractors, up from 58 percent of companies in 1992.[58]

Much of the work that wasn't outsourced would go to "temps" or part-time workers. In 1982, only 5 million Americans worked in a temporary or part-time capacity. That total increased more than fivefold over the next fourteen years, to nearly 28 million in 1996.[59]

Temps averaged, near the end of 1996, $8.79 an hour. Full-time workers, at the same time, averaged $11.44.[60] Corporations, naturally, seized this savings opportunity. By 1999, according to American Management Association research, 70 percent of America's businesses had replaced regular full-time employees with temporary workers.[61]

Temps, by the mid 1990s, could be found doing almost any task that needed doing, from the menial to the mindful. Companies could, for instance, pick and choose from among eighty-five thousand temporary accountants. These calculating temps earned as much as 20 percent less than full-time accountants — and received few or no benefits to boot.[62]

Part-timers, like temps, also hardly ever qualified for any benefits. Simply by splitting full-time work into part-time halves, companies could virtually eliminate, not just halve, their benefit outlays.[63]

Part-timers and temporaries would together make up, at century's end, a big part of what some economists came to call the "contingent workforce," the universe of people who held "nonstandard" employment.[64] All told, in 1999, almost a quarter of all working Americans labored in the contingent workforce, nearly always at jobs that were less financially attractive than comparable full-time work.[65]

Many more workers labored in "full-time" jobs that bore scant resemblance to the full-time jobs from days of yore. These *faux* full-time positions proliferated, most noticeably, in America's fast-growing retailing sector, and nowhere more so than at America's fastest-growing retailer, the mighty empire known as Wal-Mart.

WE TEND, AS A NATION, NOT TO PAY MUCH attention to retail workers. A marginal group, we assume. Lots of teenagers. Stay-at-home moms looking for diversions. Some bored retirees, too. Just a bunch of people trying to make an extra buck or two.

Retail workers don't deserve this casual indifference. Retail workers may actually be, in twenty-first century America, our single most significant employee group. One worker in five, outside of government service, now works in retail. Teenagers? At one recent count, only 16 percent of retail workers were teens. Almost half, 44 percent, were at least 35.[66]

"In working-class and inner-city communities across the country," notes Annette Bernhardt, a University of Wisconsin analyst, "retail is in fact the main employer."[67]

And not a very good one. A half-century ago, retail employees worked regular full-time hours, the same forty-plus hours a week that factory workers averaged.[68] By the end of the 1990s, manufacturing jobs still offered, week in and week out, more than forty hours of wages. But retail workers could only count on just over thirty.[69] Retail jobs, increasingly, paid less, too. In 1973, retail workers earned three-quarters of the national average wage. In 1999, they earned just over two-thirds the national norm.[70]

Retail jobs didn't just "happen" to deteriorate. Corporate America made this slide inevitable, points out analyst Annette Bernhardt, by consciously adopting a high-tech, low-wage model for retail work, a model "defined, almost single-handedly, by one company."[71] Wal-Mart, that one company, started out in the early 1960s as an Arkansas five-and-dime. Forty years later, Wal-Mart stores would blanket the nation and employ over 1.2 million workers, more than any other private employer in the United States.[72] These workers, at the start of the twenty-first century, were helping Wal-Mart to about $7 billion a year in profits.[73]

The key to Wal-Mart's success? In business circles, Wal-Mart flacks continually trumpet their company's super-sophisticated inventory-management technology.[74] Wal-Mart's television ads, meanwhile, credit the company's good fortune to the chain's ever grinning employees, the men and women who keep Wal-Mart store shelves stocked and register lines moving. These Wal-Mart "sales associates," the company notes proudly, have plenty of reason to grin. Seven of ten, Wal-Mart boasts, work "full-time."[75] And these full-time workers qualify for a variety of benefits, even health insurance and 401(k)s.[76]

Is Wal-Mart single-handedly saving the middle class? Not exactly. Wal-Mart employees work "full-time" only because Wal-Mart defines full-time work as twenty-eight hours a week. This curious definition does carry some advantages — but only for Wal-Mart. If business is brisk at any particular retail outlet, Wal-Mart managers can have their "full-time" associates work more hours, without having to pay time-and-a-half for overtime.[77] Federal law mandates time-and-a-half for full-time workers asked to work overtime, but that mandate only kicks in above forty hours a week.

Still, doesn't Wal-Mart deserve plaudits for offering benefits to employees who work just twenty-eight hours a week? Many Wal-Mart workers might not think so. At Wal-Mart, new hires do not immediately qualify for Wal-Mart's health insurance. Huge numbers of veteran employees who do qualify simply can't afford it. That's because Wal-Mart expects workers to pay health insurance premiums, out of their own pockets, that equal about half Wal-Mart's total cost for providing health care benefits. Nationally, companies that offer health insurance recoup from employees only a quarter of the insurance cost.[78]

Early in 2002, Wal-Mart upped its employee health insurance payroll deduction rate still higher, by 30 percent.[79] With the increase, workers would have to shell out $2,600, over twelve months, for family coverage.[80] How could Wal-Mart workers averaging less than $11,000 a year for "full-time" work possibly afford such costly health insurance? Company officials had some helpful advice. They suggested that employees withdraw money from their 401(k)s to offset the hefty health insurance premium increase.

"We want to give our associates," a Wal-Mart spokesperson explained to the *Wall Street Journal*, "as much flexibility as we can."[81]

Workers who took the company's advice — and started emptying their 401(k)s to pay for health insurance — would have been taking quite a gamble with their futures. Wal-Mart has never offered a pension plan, and the employee stock ownership plan the company touts as a substitute hardly secures many golden years. Less than 2 percent of Wal-Mart associates, by the end of the 1990s, had amassed more than $50,000 worth of stock in their individual stock ownership account.[82]

Wal-Mart workers might not enjoy much retirement security, but they could at least, in the 1990s, count on a proper burial. Midway through the decade, Wal-Mart announced a special $5,000 death benefit for the company's loyal associates. A noble gesture? Not according to the *Houston Chronicle*. The real "benefits" from the deaths of Wal-Mart workers, the paper would later reveal, were going to Wal-Mart, not to worker families. Wal-Mart had secretly taken out life insurance policies, payable to the company, on well over a quarter million employees. These "dead-peasant" policies, as they're known inside insurance circles, awarded Wal-Mart $64,000 whenever any covered worker kicked the bucket. Amazingly, these secret policies didn't cost Wal-Mart much of anything. The company "borrowed money from the insurers to pay the premiums" on the policies, then wrote off the premiums on its tax returns as a business expense. The entire package, one lawyer explained to the *Houston Chronicle*, amounted to an "elaborate tax dodge."[83]

Actually, Wal-Mart had stumbled on to more than a tax dodge. The company had found a way to make even dead workers productive.

"I never dreamed that they could profit from my husband's death," the widow of one of those workers, Jane Sims, told the *Chronicle*.[84]

Sims ended up receiving not a penny of the $64,000 Wal-Mart collected after her husband's heart-attack.

The heirs of Wal-Mart founder Sam Walton, meanwhile, have fared a good bit better than the widow Jane Sims. Of the ten richest people in the world, on the *Forbes* magazine annual list published in 2002, five were Waltons. Sam Walton's sons Jim, John, and S. Robson, daughter Alice, and widow Helen together sat on a fortune worth a combined $103 billion.[85]

Jobs in modern America do pay after all, just not for the workers in them.

IN THE QUARTER CENTURY AFTER WORLD WAR II, a full-time job at General Motors — or any other major corporation in the United States — meant a passport to a better life. Over the course of the next quarter century, corporate America essentially revoked that passport. That revocation made some Americans, like the Waltons, billionaires. That same revocation left millions of other Americans deep in poverty.

Poverty in America used to be something that happened to people who didn't have jobs. That changed in the 1980s and 1990s. By century's end, the driving force behind poverty had been transformed, from unemployment to underpaid work.[86] In the 1980s and 1990s, corporate America turned low-wage jobs into low-wage careers, with immensely profitable corporate giants like Wal-Mart leading the way. Wal-Mart, as founder Sam Walton explained, always paid workers "as little as we could get by with at the time."[87]

"I was so obsessed with turning in a profit margin of 6 percent or higher that I ignored some of the basic needs of our people," Sam Walton would later write in his autobiography, "and I feel bad about it."[88]

Not bad enough to correct it. Wal-Mart's low-wages survived Sam Walton's 1992 death. At century's end, about half of Wal-Mart's workers could qualify for food stamps.[89] In 2002, a single mom with two kids could work all year at Wal-Mart, in a $7.50 an hour "full-time" job, and still come out $2,000 *under* the official poverty line.[90]

Corporate America's cheerleaders did their best, throughout the boom years, to ignore numbers like these. Ignore all that carping about "low" wages, they argued. Trickle-down really does work. America, they announced, is conquering poverty!

The official statistics partly supported the cheerleaders' claim. Poverty, as measured by the Census Bureau, did shrink in the 1990s. In 2000, only 11.3 percent of Americans lived in poverty, the lowest rate since 1973.[91] America didn't just have *fewer* poor people, the cheerleaders argued, America had the world's most fortunate poor people. Almost every poor family in the United States — 97 percent of them, to be exact — owned a color TV, the conservative Heritage Foundation noted in 1998. Two-thirds of poor families lived in air-conditioning. Seven of ten had their own cars.[92]

"Poverty, understood as the absence of food, clothing, and shelter," one top right-wing commentator, Dinesh D'Souza, argued near the boom's end, "is no longer a significant problem in America."[93]

America's poor, in other words, aren't really poor. Sure, America has the world's richest rich. But America's "poor" are rich, too. Their homes boast microwaves, VCRs, stereos, dishwashers, an array of consumer goods unimaginable to the vast bulk of the world's people. How could any poor people so rich, conservative commentators wondered, possibly be labeled poor?[94] If even the "poor" were so blessed, what more proof could be needed that inequality, in the end, benefits everybody, not just the wealthy?

Those who take this perspective seriously tend to see "poverty" as nothing more than a set of simple absolutes. A family with a roof over its head, food on the dinner table, and a television in the living room, the absolutists believe, cannot possibly be poor. But poverty, more careful analysts point out, cannot be reduced to a roof or a meal or a TV set. Poverty has always been — and will always be — a *relative* reality. If substantial numbers of the people around us own things we cannot afford to own, we will be poor, even if our families own goods that might be considered "luxuries" by families in other societies. If substantial numbers of the people around us can do things we cannot afford to do, we will be poor, even if our incomes would seem ample to families elsewhere.

Poor people are, at root, excluded people.[95] They lack the wherewithal, as one British observer puts it, "to do the things that society takes for granted."[96] What any particular society "takes for granted" will, of course, evolve and change over time. Back in 1980, for instance, American families didn't need a home computer to feel part of the society around them. Now computers help define contemporary American life. To be unable to afford one is to be excluded from the ebb and flow of the lives most Americans live.

Just how much income, in modern America, do families need to afford the basics that constitute what our society considers a decent life? We need to know the answer. People who can't afford the basics are poor. If we want to know whether *real* poverty in the United States is decreasing, we need to know how much people need to earn to be able to afford these basics. Unfortunately, the federal government's official poverty numbers, as maintained by the Census Bureau, don't help us much here.

The Census Bureau currently sets the poverty line at three times the income a family needs to afford a minimally adequate food budget.[97] If your income falls above this line, you are not officially poor. The federal government first applied this three-times rule to poverty back in 1963. At that time, the rule made sense. Various studies conducted in the early 1960s had demonstrated that average families spent a third of their incomes on food.[98] That's no longer the case. Food, at the start of the twenty-first century, only consumes one-seventh of an average family's basic expenses.[99]

The lives average families live have changed in all sorts of other ways, too. Many more women work now outside the home. Child care and other work-related expenses loom much larger in the typical family budget.[100] And housing costs currently eat up a much larger share of family income than they did in 1963.[101] The federal government's poverty calculations reflect none of these changes — and, as a result, these official calculations do not define as poor millions of Americans who cannot afford "to do the things that society takes for granted."[102]

Just how outdated have the federal government's official poverty guidelines become? Sharon Daly, a Catholic Charities official, put a flesh-and-blood face on the inadequacy of the federal poverty numbers when she testified before Congress in 2001. Daly related the story of a single mom with two young children who had come for emergency food assistance to a local Catholic Charities agency in Allentown, Pennsylvania. The mother, at the time, was working fifty hours a week, at $8.50 per hour. Under the standard federal poverty standard, Daly noted, this young mother was not "poor," not even close to poverty. Her $18,000 annual income put her more than $3,000 over the $14,630 poverty threshold for a family of three. But how much would this mother have had to earn to really meet her family's basic needs, without having to resort to a food bank and other charitable assistance? She would have needed to earn, Daly observed, at least $14.98 an hour, almost double the young woman's actual wage rate. [103]

Daly's $14.98 wage estimate came from one of the many research efforts conducted, over recent years, to calculate just how much income American families need to meet their basic needs.[104] Researchers involved in these efforts have developed, as alternatives to the official poverty line, "basic family budgets" for households of varying size in different parts of the country. In 2000, analysts from the Economic Policy Institute in Washington, D.C. reviewed nearly two dozen of these "basic family budgets."[105] Each of the budgets EPI studied defined the "basics" a little bit differently. Some included, for instance, school supplies and checking account fees. Others didn't. The budgets also covered different geographic areas. Given these differences, the bottom lines for these basic budgets, not surprisingly, varied widely. For a single parent with two kids, the monthly income required to live a minimally decent life ranged from $1,605 a month in Kentucky to $3,484.44 in the District of Columbia, in dollars inflation adjusted to 1996 levels.[106] Overall, according to the twenty-three studies, the annual income a three-person family required to live a minimally decent life averaged a bit over $29,500.[107]

How many of America's actual single-parent, two-kid families met this $29,500 standard in 1996? Not many. In that year, the median income for single-parent, two-child households stood at $16,389. The "official" poverty level that same year? Just $12,636 for a three-person family.[108] In other words, single-parent families with two kids in 1996 could have earned considerably more than twice the official poverty threshold and still not have earned enough to meet minimal levels of decency.

What about two-child families with two working parents? In 2000, Economic Policy Institute researchers created their own "basic needs budget" and keyed that budget to actual 1998 living costs, the latest figures then available, in Baltimore. The EPI researchers defined their "basics" conservatively. A two-parent, two-child family living on EPI's Baltimore "basic budget" would have no pets and no cable TV and take no vacations. The family would never go out to the movies or eat at a restaurant, not even for fast food. The family would rent a two-bedroom apartment but buy no renter's — or, for that matter, life — insurance. The family would never use a credit card or be able to save a dime for retirement, college, or emergencies.

In 1998, this basics-budget family would have needed to earn $34,732 to get by, over twice the official poverty threshold.[109] How difficult would reaching $34,732 have been in 1998? The adults in a two-parent, two-child Baltimore household could have worked, year round, at jobs that each paid $3 *above* the minimum wage and *still* not have made enough to reach the basics-budget threshold.

In 2001, researchers from Ms. Foundation for Women calculated an update on the basic cost of living for a two-parent, two-child family. Such a family, these researchers found, needed $36,835 in 2000 to be able to afford the minimal basics.[110] The adults in this family of four could have worked, year round, at jobs that paid *$3.50 above the minimum wage*, the Ms. Foundation researchers concluded, and still have not made enough to reach a minimum needs budget threshold.

In 1998, in other words, the parents in a family of four needed jobs that paid $3 an hour *over* the minimum wage to give their kids a minimally decent life. In 2000, these parents needed jobs that paid $3.50 an hour over the minimum wage to provide, at a minimal level, for their families.

At century's turn, after a generation of widening inequality, such was the progress that poor people were making.

"PEOPLE ARE REALLY HURTING," Philadelphia Mayor Ed Rendell noted early in 1999, at the height of the 1990s boom, "and no one's paying attention."[111]

The year before, the number of local families seeking housing from city shelters had jumped 17 percent. Requests for help from local food banks had leaped 22 percent.[112] Poverty in Philadelphia, official or otherwise, did not appear to be shrinking. The benefits from America's great boom years hardly seemed to be trickling down to those who needed them most.

The ideologues of inequality begged to differ. Over the course of the boom years, they trotted out one new argument after another to counter those, like Rendell, who dared suggest that trickle-down America wasn't working as advertised.

Factor in all the handouts poor people get from the government, went one standard counter, and poor families turn out to be doing just fine.[113] Households weren't getting poorer, other ideologues contended, just smaller. "If two people earning $20,000 each divorce," one of these ideologues explained, "the result is two households of $20,000 instead of one with $40,000."[114] And that hand-wringing about all those struggling families in the poorest fifth of households? Take those numbers about the bottom fifth of households with a grain of salt, advised the conservative Heritage Foundation. The poor families in the lowest-income fifth actually have fewer people in them than the richer families in any of the upper fifths.[115] Add up the actual numbers of people in each household quintile, the argument went, and you'll find many more Americans at the prospering top than the struggling bottom.[116]

Other trumpeters of America's economic triumph blasted the nation's inflation statistics. The consumer price index, one panel of conservative economists argued, has been "overstating inflation by at least a percentage point." Real wages, these economists insisted, were actually rising, not declining.[117]

In sum, people at the bottom were doing quite well, thank you, so well, in fact, that maybe America needed to become more unequal, not less. As a matter of fact, some economists were arguing by century's end, America's rich weren't prospering at the expense of the poor. America's poor were prospering at the expense of the rich!

Indeed, contended economists like Robert Rector of the Heritage Foundation, if you add up the taxes rich people pay, add into the mix the benefits that cascade down to the poor, and then adjust incomes for family size and hours worked, all those severe inequalities between household incomes at the top and bottom simply disappear, leaving the hard-working affluent with a "remarkably low" share of the nation's after-tax income.[118]

The arguments of Robert Rector-types would fill the nation's op-ed pages throughout the boom years and beyond.[119] Economists less bedazzled by the boom, from think tanks like the Economic Policy Institute and the Center for Budget and Policy Priorities, would labor valiantly to carry less ideologically loaded numbers to the public and policy makers.[120] They would eventually get some formidable help, from landmark independent research prepared by the nonpartisan Congressional Budget Office.[121] This CBO research, published initially in 2001 and updated in 2003, gave income data from the 1980s and the 1990s by far their closest scrutiny and, in the process, put to rest any and all claims that rising inequality had somehow left average and poor Americans significantly better off.

The CBO researchers defined income broadly. They included every significant category of income, from the obvious (wages and salaries, interest and dividends) to the often overlooked (retirement benefits and employer contributions to 401(k)s). They took into account categories of income that primarily benefit the affluent (capital gains and rental income) and categories that primarily benefit the middle class (employer-paid health insurance premiums). And they took special care to include all categories of income, both cash and in-kind, that primarily benefit the poor (Medicaid health insurance coverage, food stamps, school lunches, and housing and energy assistance). In sum, the CBO totaled all the resources that "low-income households have at their disposal," even the dollars they receive from the Earned Income Tax Credit, the fastest-growing source of aid for poor people in the 1990s.[122]

The researchers also adjusted incomes for differences in household size, recognizing that if two households have $20,000 in income, a one-person household with $20,000 will be better off than a four-person household with $20,000. On top of that, to guarantee that the income going to the bottom fifth of the population was not somehow understated, the CBO placed the same number of people, not the same number of households, into each of its analytic income fifths, a departure from normal Census Bureau practice.[123]

The CBO researchers, in effect, had all their statistical ducks in order. They were counting all the income Americans, rich and poor, receive. They were adjusting for changing demographics. They were comparing equally sized quintiles. And what did they find, after all these calculations? Had America's increasingly unequal economy significantly benefited poor and middle-class Americans? Not even close.

Average incomes for the poorest fifth of Americans, after adjusting for inflation and after taxes, rose only $52, or less than one tenth of 1 percent, per year between 1979 and 2000.[124] Average incomes in the middle fifth of households also rose by less than 1 percent a year, from $36,400 in 1979 to $41,900 in 2000.

Households in the top 1 percent, meanwhile, saw their after-tax incomes more than triple, from an inflation-adjusted $286,300 in 1979 to $862,700 in 2000.

The significance of the CBO numbers, the best statistical evidence available, could not be any clearer. *Some* Americans were benefiting appreciably from America's increasingly unequal economic order. But precious few of these *some* lived in average- or low-income households.

CORPORATE AMERICA'S CHEERLEADERS, try as they might, have not been able to get the nation's income data to cooperate. They have sliced the data. They have diced the data. But the data have still not offered up the numbers the cheerleaders so desperately covet, the evidence, the proof, that all Americans do better whenever rich people get richer.

Some cheerleaders, in response, have essentially given up searching for evidence. Instead, they scapegoat. The United States, they argue, does not have growing inequality. The United States has growing immigration. Immigrants, the scapegoaters contend, are making America's economy look bad.

"I would challenge anybody to find a middle-class family in this region whose economic condition has declined," Stephen Kagann, the chief economist to New York Governor George Pataki, huffed after news reports in 2001 revealed that typical New York family incomes had dropped $2,876 over the course of the 1990s. "Nobody's real income goes down during periods of prosperity."[125]

So how could Kagann account for his state's declining median family incomes? Middle-class people had moved out of New York in the early 1990s, Kagann asserted, and immigrants, making less, had moved in.

"That by itself would bring the median down," Kagann told the *New York Times*. "But that does not mean that a middle-class person is less well-off than they were in 1990. That would simply be untrue."[126]

Kagann's protestations echoed themes that other economists had been circulating for several years.

America's "ever-higher immigration rates" are contributing mightily to the nation's "increasing income disparity," W. Michael Cox, the chief economist at the Federal Reserve Bank of Dallas, and Richard Alm, his frequent co-author, had asserted in an analysis published in 2000. Immigrants, Cox and Alm noted, constitute a significant presence in each of the nation's seven most unequal states. These unequal states — New York, Arizona, New Mexico, Louisiana, California, Rhode Island and Texas — average about 13 percent foreign-born. In the nation's seven least unequal states, immigrants average only 3.8 percent of the population.[127]

If you adjust America's wage data to account for immigration, chimed in American University economist Robert Lerman, you find that the nation's wage-earners did just peachy in the 1980s and 1990s. Without adjusting for immigration, Lerman maintained, the real wages of workers in the United States show a 1 percent drop from 1979 to 1999. After adjusting for immigration — by including the 1979 home-country incomes of immigrants who worked in the United States in 1999 — real wages show a 6 percent increase.[128]

Poor immigrants, in short, make the United States *look* poor. But both immigrants and the United States overall, the cheerleaders argue, are actually doing quite well economically.

"Let us say someone earning $2,000 per year in Guatemala in 1980 immigrates to the U.S.," *Forbes* magazine conjectured in 1999. "If this person ends up in a U.S. job that pays $10,000 per year, he would certainly be richer. However, since $10,000 is in the poverty range for the U.S., the number would show up in U.S. statistics as both an increase in the poverty rate and earnings inequality."[129]

The message to economists who worried about poverty and inequality: Wise up, the country's fine.

"If economists could concentrate more on simply doing economics better," *Forbes* concluded, "we could all relax and simply enjoy the fruits of the market economy."[130]

In the 1980s and 1990s, of course, those market economy fruits were most likely picked by low-wage immigrant workers. By the end of the 1990s, about 30 million foreign-born individuals lived in the United States, with over a million more arriving each year.[131]

These immigrants did little relaxing. They worked, nearly every available hour they could. In Maryland's Montgomery County, just outside the nation's capital, one immigrant from Latin America told an interviewer he was working "part-time." How many hours a week, the interviewer wanted to know, was the immigrant working?

"About sixty," came the reply

Sixty? How could you be "part-time," the confused interviewer asked, and be working sixty hours a week? The worker couldn't understand the confusion. He considered himself a part-time worker. After all, he was still looking for more work.[132]

A continent away, in California, millions of immigrant workers assembled computer chips, built houses, and served meals for wages so low that few could afford, on their own, a roof over their heads. In booming San Jose, immigrants lived as many as twenty-six men to a house.[133]

Were these low-wage immigrants, just by their presence, making the United States appear more unequal than the nation really was? Corporate America's cheerleaders certainly nurtured that claim. More perceptive observers disagreed. What was making America appear — and be — more unequal, they explained, was not the presence of immigrants, but their exploitation. America's low-wage immigrants, these observers noted, were creating wealth — and not getting much of it back.

This exploitation of immigrant labor gives the United States a distinct competitive advantage, as even some conservative analysts acknowledge.

"It's a form of reverse foreign aid," notes the Cato Institute's Stephen Moore. "We give less than $20 billion in direct aid to Third World nations and we get back $30 billion a year in capital assets."[134]

These "assets," explains journalist Greg Palast, are immigrants, "workers raised, fed, inoculated and educated by poorer countries, then shipped at the beginning of their productive lives" to the United States, where they add enormous value to corporate America's bottom line.[135] At little cost. Unskilled immigrant workers, particularly those without proper papers, can be worked hard and paid little. Workers inside the United States illegally, after all, can hardly stand up and object to ill-treatment. They might as well write up their own deportation orders.

Skilled immigrant labor may be, for corporate America, an even better deal. By 1997, skilled immigrants made up 21 percent of the computer scientists in the United States and 21 percent of the nation's chemical engineers.[136] These immigrant professionals arrived in the United States already thoroughly trained — on someone else's dime.

"The habit of siphoning off other countries' high-skilled workers," Palast observes, "permits America's monied classes to shirk the costly burden of educating America's own underclass."[137]

Corporate America has, in effect, created a system that works with a perverse brilliance.

"Bangalore-born programmers in Silicon Valley," Palast notes, "design numberless cash registers for fast-food restaurants so they can be operated by illiterate Texans."[138]

Not exactly the American dream.

OUR REAL AMERICAN DREAM, of course, revolves much more around homeownership than any particular job. What matters most, Americans agree, is having a home to call your own, a place to raise a family — and build equity for the future. In the booming 1990s, almost everybody in the United States, except perhaps illiterate Texans, seemed to be able to realize this homeownership dream. Homeownership rates set records throughout the decade, to the delight of America's economic pom-pom squads. Weren't these rates undeniable proof, they argued, that wealth at the top was indeed trickling down? Average Americans must be getting wealthier. How else could they afford to buy so many homes of their own?

How else? Simple. In the 1990s, America's real estate industry changed the homeownership rules.

Mortgage lenders in the United States, up until the 1990s, had always insisted that first-time homebuyers must come up with a substantial downpayment before any home loan would be advanced. Saving enough to afford a downpayment, in the years after World War II, became a rite of passage for

American families. Not every young family, to be sure, made enough to meet the real estate industry's stiff downpayment requirements, but enough could, in America's postwar decades, to keep the lending pump primed.

By the mid 1990s, the lending world had changed. After a generation of falling real wages, few young families were now making enough to prime the mortgage pump. Most families starting out could not come close to affording, no matter how hard they scrimped and saved, the substantial downpayments that lenders had traditionally insisted upon.

What did the lenders do? They stopped insisting. Can't afford 15 percent down? How about 5 percent?

In 1989, about 93 percent of mortgages required downpayments that ran *above* 10 percent of the purchase price. Ten years later, over 50 percent of mortgages went to families that put down, as their downpayment, *less* than 10 percent.[139] The typical downpayment, about 15 percent in the mid 1980s, slid to 5 percent in the late 1990s.[140] Many young couples couldn't even afford that. Lenders, ever considerate, ratcheted down the required downpayment still another notch, to 3 percent. Early in the new century, Fannie Mae, the giant mortgage investor, made the predictable final leap. To its standard loan product line, Fannie Mae added a "zero down" mortgage.[141]

These shrinking downpayment requirements meant that more young working families could "afford" to buy their own homes. But lower downpayments also meant that young working families, once they had mortgage in hand, would face crushingly high monthly payments. "A zero-down mortgage," as one consumer reporter warned prospective homebuyers, "is going to cost you more in payments every month, not just in higher principal and interest charges, but in mortgage-insurance fees as well."[142]

Younger families had no choice. They took whatever mortgages they could get. They gained, in exchange, a financial burden they could not sustain.

A prudent family, Fannie Mae had once traditionally suggested, ought not spend more than 25 to 28 percent of its gross income on housing. By the end of the 1990s, more and more families found themselves routinely outspending that standard, spending so much on housing, scholars from the University of Texas and Harvard reported, that they were "placing their financial security in jeopardy."[143] By century's end, according to the 2000 Census, nearly a third of American homeowners — 31.2 percent — were paying more than a quarter of their incomes on housing.[144]

These homeowners, to make matters worse, were gaining less economic security for their housing investment dollars. Homeownership, in years past, had always carried families up the economic ladder.[145] A family might start out with an $85,000 mortgage on a $100,000 home. A decade later, that family might still owe $50,000 on the mortgage, but the value of the home might have appreciated to $150,000. The fortunate family now held $100,000 in home "equity," and this equity, as the family continued to pay down the mortgage, would only swell higher, giving the family a long leg up on lifetime financial security. By the end of the 1990s, home ownership no longer delivered this automatic security. Homes were still appreciating in value, but average families were no longer building significant equity. Families under age 45, concluded a study by Freddie Mac, the nation's top housing finance enterprise, held 14 percent less equity in their homes in 1999 than families under 45 had held a decade earlier.[146]

"Despite a booming economy," observed Stephen Brobeck, the executive director of the Consumer Federation, the sponsor of the Freddie Mac study, "many middle-class families have built no wealth."[147]

Why wasn't home ownership helping families build wealth?

In the 1990s, more and more families simply couldn't afford to sit back and let their homes "build wealth." With incomes stagnating, families needed more cash to pay their bills. They took that cash from their homes — by "leveraging up," borrowing against their home value via home-equity loans and lines of credit. In 1981, only 4 percent of outstanding home mortgage debt came from second mortgages. By 1991 — after the introduction and proliferation of home-equity loans and lines of credit — the second mortgage share of total mortgage debt had tripled.[148]

Overall, between 1983 and 1998, mortgage debt nearly doubled, from 21 percent of the value of homeowner property to 37 percent.[149] By the turn of the century, warned the Consumer Federation's Stephen Brobeck, far too many homeowners were "standing on the edge." They might be able to make their payments, he explained, "but if anything goes wrong — job loss, illness, divorce — they could end up in bankruptcy and possibly lose their house."[150]

Many did. Between the early 1980s and the end of the 1990s, the number of homeowning Americans in bankruptcy proceedings more than quadrupled.[151]

EVERY THREE YEARS, THE FEDERAL RESERVE conducts in-depth survey research on the financial well-being of American consumers. In early 2000, Fed officials released the data from their 1998 survey research. The average American family's consumer debt, the Fed reported, had increased by almost $10,000 in just three years.[152]

In Washington, Congress and the White House took these new debt numbers in stride. Home equity down? Consumer debt up? No need, our movers and shakers believed, to fret. Average Americans, despite shrinking home equity, were still building brighter financial futures anyway — in the stock market.

Over the course of the 1980s and 1990s, the years of Wall Street's greatest bull market ever, a number of average Americans did indeed parlay stocks into brighter financial futures for their families, just as some average Americans, over those same years, parlayed some good fortune at casino blackjack tables into brighter financial futures. But most Americans, the vast majority of Americans, saw no appreciable gains from the great bull market that opened on Friday, August 13, 1982 and ran into 2000. Many American families may have owned stock by century's end, but few families owned much.[153] Among America's middle-income families, 52.1 percent owned shares of stock in 2001. This 52.1 percent's most typical families held just $15,000 worth of shares.[154]

The real rewards from stock market wheeling and dealing had gone, by century's end, to a narrow band of affluent households, as IRS data released in 2001 showed plainly. In 1997, the latest year with full stats then available, Americans who made at least $1 million — about one-tenth of 1 percent of the nation's taxpayers — made more money buying and selling stock than all other Americans combined. Overall, Americans made over 61 million stock market transactions in 1997, according to the IRS. All this buying and selling generated net gains of $136.4 billion. Over half this enormous trading profit, 54 percent, went to households that reported incomes of at least $1 million.[155]

In that same year, families that earned under $100,000 made up 89 percent of the taxpaying public. These under-$100,000 households received just 11 percent of all gains from the year's stock market trading.[156]

And whose fault was that? Why average Americans, of course, at least according to Wall Street. American families, Wall Streeters lamented right before the stock market bubble started bursting in 2000, were making a big mistake. They were not rushing fast enough into the market. Newspaper, television, and radio analysts urged those Americans not yet "in the market" to get with it. They detailed, with example after example, the dollars flowing to those brave enough to take the market plunge. A "stone-broke" family in mid 1989, as commentator Scott Burns pointed out, could have amassed a $28,000 nest egg, in just nine years, simply by investing $100 a month in common stocks.[157]

"At least half the families in America," Burns concluded, have "missed the easiest ticket to wealth in two generations."[158]

But lamentations like these did some missing of their own. They missed the one inconvenient reality — the absence of spare cash — that the great majority of American families could never forget. Most families not yet "in the market" couldn't afford to be "in the market." They couldn't afford to set aside $100 a month in stocks. They had nothing close to the initial stake necessary to make real money in stocks.

"If you had put $10,000 in the stock market in 1983, you could have more than $110,000 today," as journalist Holly Sklar noted in 1999. "Unfortunately, most Americans didn't have the $10,000 to invest then, and they don't have it today."[159]

And those struggling Americans who did their best to raise that $10,000, those who, by the late 1990s, finally did have a significant stake to invest, these struggling Americans, as things turned out, would have been better off keeping their money in a bank savings account. *Money* magazine, in 2002, looked back upon Wall Street's previous four years, and tried to calculate just how well average Americans had actually fared with their stock market investments. Not too well at all, *Money* concluded. Average mutual fund investors, for the four years, had earned just 1 percent a year on their investments.[160]

Main Street, corporate cheerleaders enthused in the 1990s, was going Wall Street. Wall Street, unfortunately, turned out to be a dead-end.

IN THE 1990S, MOST AMERICANS did not make a killing in the stock market. So what *did* most Americans get out of the boom years?

Not much.

In 2001, typical families in the poorest quarter of American families earned $19,700 in income. These families had all of $1,100 to their names, after subtracting everything they owed from everything they owned. This $1,100, their "net worth," amounted to an increase of just $500 over what typical families in America's poorest quarter were worth in 1992, after adjusting for inflation, according to Federal Reserve Board data.[161]

Typical families in the second quarter of America's wealth distribution, that quarter just below the national average, took home $34,900 in 2001. These families ended that year worth $40,800, a per family increase of $11,800 over 1992. Should we be impressed by this $11,800 increase? If these families had been able to put their 1992 net worths in a savings account paying a little over 4 percent annual interest, they would have ended up 2001 wealthier than they actually did.

Typical families in the next quarter up, the quarter just above the national average, earned $50,900 in 2001. These families averaged $156,100 in net worth that year, a $47,700 increase over 1992. But much of that increase came from the appreciation of homes and other assets these families already owned. Between 1998 and 2001, typical families in this third quarter actually lost money with their stock market investments.[162]

For average Americans, the national data make plain, the boom years brought no miraculous gains.

But maybe we have this all wrong.

Inequality, we have argued, has not delivered for average Americans. These Americans had been promised that great days would surely multiply if the nation only did more to help rich people become richer. With more dollars in rich people's pockets, the promise went, the economy would expand, prosperity would settle down upon the land, and average Americans would end up, if not rich themselves, significantly better off than they had ever been before.

Some of this promised sequence did, in fact, unfold. The economy did indeed expand, throughout the 1980s and 1990s, as the rich became richer. But that expansion left most average Americans, the national stats make abundantly clear, only marginally better off.

But why should our focus be *national*? Wealth in the boom years, after all, did not concentrate uniformly all across the nation. Great fortunes accumulated much more rapidly in some parts of the United States than others. If we want to explore whether helping rich people become richer does indeed benefit average people, don't we need to focus our attention on those areas of the country where rich people became the richest?

After all, if the ideologues on inequality are correct, if growing the fortunes of rich people does indeed grow good times for everybody, then those places where great fortunes are growing the fastest ought to be the places where average people are prospering the most exuberantly.

Fair enough. Let's look beyond the *national* numbers. Let's zero in on those places where rich people have accumulated wealth most impressively. In these places, according to greed economics, we should find average families thriving, not just surviving.

And where exactly should we look to find all these happy campers? We have an obvious choice. Throughout the 1980s and 1990s, one state consistently grew more fortunes than any other. This one state became, in the process, more thoroughly unequal than any other — became, by century's end, a virtual heaven on earth for the wealthy.

And average people? How did they fare, economically, in this inequality heaven? How did they fare, in California?

OVER THE LAST QUARTER OF THE TWENTIETH CENTURY, American computers and American entertainment thoroughly dominated global markets. Those computers and that entertainment came, overwhelmingly, from California, the nation's most populous state. Out of Southern California came television, movies, and music. Out of Northern California came the computers and semiconductors that, midway through the 1990s, accounted for nearly half of America's industrial growth.[163] By 1997, the seven thousand or so electronics and software companies around Silicon Valley — the corridor south of San Francisco — were valued at nearly half a trillion dollars.[164] Never before, proclaimed the Valley's biggest boosters, had so much wealth been created in such a short time.[165]

"You've got the biggest wealth creation machine," exclaimed one Menlo Park investment expert, "man has ever seen."[166]

And all this wealth filled Santa Clara County, Silicon Valley's hometown jurisdiction, with more rich people in one place than America had ever seen. In 1996 alone, the county "minted" sixty-two new millionaires every day.[167] In 1999, some sixty-five thousand county households, about 11 percent of the Santa Clara total, were worth more than $1 million, without even having to count the value of their homes.[168] At least thirteen local households, that same year, could claim billionaire status.[169]

Statewide, incomes for the wealthiest Californians soared in the years before century's end. Between 1993 and 1997, after taking inflation into account, the state's richest 1 percent saw their incomes, on average, leap over 57 percent, from $537,168 to $844,991. The taxpayers in this lofty 1 percent, a California

Budget Project report noted in 2000, were reporting more income than the entire bottom 60 percent of state taxpayers.[170]

In no other state, outside California, would wealthy people be doing so well.

That should have been good news for California's average-income people, according to trickle-down economic doctrine. Average Californians ought to have been following rich Californians straight up the economic ladder. They weren't. In the 1990s, the incomes of average four-person families in California actually lost purchasing power, $1,069 in all, after adjusting for inflation.[171] Between 1989 and 1999, the number of Californians living in *official* poverty increased, from 24 to nearly 29 percent.[172]

Over the longer timeframe, taking into account both the 1980s and the 1990s, the same trend line appeared. The more affluent Californians, those in the top fifth of the state's families, saw their incomes rise, after inflation, 49 percent between the end of the 1970s and the end of the 1990s. The middle fifth of California families, meanwhile, saw their incomes drop 3 percent — $1,538 in purchasing power — over the same period.[173]

By century's end, fewer, not more, average Californians could afford the basics of middle-class life.

"Seven million Californians have no medical insurance — not just the greatest number but the highest percentage of medically uninsured of any state," Harold Meyerson, a veteran political observer, pointed out in 2000. In Los Angeles, he added, "an entire city council district — that's a quarter-million people — could comprise Angelenos who live, all quite illegally, in family-home garages."[174]

Further north, in booming Silicon Valley, life certainly appeared more pleasant, at least by conventional measures. Jobs abounded in Santa Clara County, and these jobs paid an amazing $18,000 more, on average, than jobs nationally.[175] Overall, about a third of Santa Clara households made between $75,000 and $150,000, more than double the national norm.[176] Silicon Valley "seemed to have it all." The area, by century's end, ranked first nationally for annual spending on home furnishings, third nationally on travel expenditures, and fifth nationally in dining out. But most Santa Clarans, even those with incomes that doubled the national average, did not share in this good life. Silicon Valley, the San Jose *Mercury News* would report in 1999, "is becoming a place where only the top tier can live comfortably."[177]

The Silicon Valley squeeze started with the most basic of middle-class basics, housing. Nationally, in 1998, the cost of a typical American home ran about three times the income of a typical American family. In Santa Clara County, the median home price — $364,740 in 1998 — more than quintupled the local median income. Fewer than 30 percent of Santa Clara households could afford to buy a typical county home.[178] And those who could didn't get much home for their money. One tiny ranchette in West San Jose, an undistinguished property with a small dirt backyard and no central air, listed for $508,000 and sold for over $650,000 after the owners received thirty-seven offers.[179]

Journalist Karen Breslau, a writer for *Newsweek* and *Wired*, considered herself thoroughly middle class, until she moved to Silicon Valley in 1998.

"In Silicon Valley, I am a have-not," she would write a year and a half later. "It seems no amount of saving, of macaroni-and-cheese eating, of settling for vinyl instead of Italian tile can put me within a comma and three zeros of owning a house here. My friends suffer from the same shelter psychosis, that pervasive distress experienced by upper-middle-class migrants who on the cusp of middle age suddenly find themselves unable to afford even the cheesiest 'starter home.'"[180]

Silicon Valley rents did their share of squeezing, too. If you worked as a pharmacy technician, a tax preparer, a dietitian, an elementary school teacher, or an insurance underwriter, the San Jose *Mercury News* pointed out in 1999, you couldn't afford the rent on an average Santa Clara County two-bedroom apartment. If you labored as a local department store sales clerk, the paper added, you "would have to work more than 112 hours per week, every week" to afford a decent apartment.[181]

By the late 1990s, runaway housing costs had helped turn Silicon Valley into the nation's most expensive place to live.[182] That cost of living — 37 percent higher than the national average — shoved most local families onto a treadmill that never seemed to stop.

"I always thought that making over $100,000 meant that you wouldn't have to worry about anything," noted one area resident, Randy Wigginton, a thirty-nine-year-old San Jose software consultant with two kids. "I thought you'd light cigars with $100 bills. I found out it allows you to go to the grocery store."[183]

How did Silicon Valley families keep up? By going into the red. By 1998, Santa Clara County ranked number one nationally in average household debt.[184] Nearly 90 percent of county families owed money, above and beyond whatever mortgage debt they may have carried. Their average debt load: $12,237.[185]

In Silicon Valley, at the turn of the century, you either left the area or did whatever you had to do to keep from falling off the treadmill. One evening in 2000, long after midnight, a *New York Times* reporter found herself among a dozen locals riding Santa Clara County's No. 22 bus. The passengers, mostly workers with full-time jobs, rode that bus all evening long, just as they rode it every evening. They would nap along the way, waking up every two hours, when the bus had to be emptied between roundtrips. For someone trying to make ends meet in Silicon Valley, the "rent" on the No. 22 couldn't be beat. Only $3 for a ticket good all day — and night.[186]

THROUGHOUT THE 1980S AND 1990S, inside California and outside California, average Americans did their worst where rich people did their best.[187] In those places where magnificent fortunes took root for a few, frustrations took their toll on the many.

Places like Fairfax County, the pricey Virginia suburb outside Washington, D.C.

In the 1990s, no county in the entire United States boomed any better than Fairfax County, home to hundreds of high-tech fortunes in telecom and cyberspace. By 2000, the county median household income had topped $90,000.[188] In Fairfax County's trendy malls, shoppers could find $2,800 wine racks and $12,000 ovens.[189] The proud parents at one local high school, to send the Class of 2000 off in style, threw a $60,000, all-night graduation party. They handed out, as door prizes, televisions and stereos.[190]

Nearly a million people lived amid this gilded Fairfax County prosperity. But only a fortunate few shared in it. Lisa and Steve Pagliocchini and their two young children were not among them. Lisa and Steve together earned $90,000, well over the national average. But Lisa and Steve didn't feel above average. In Fairfax County, they felt trapped.

"I'm at war with myself half the time," Lisa told a local reporter in 2001. "There are times when I would love to be a home mom, but we can't afford it. It would be tight, very tight."[191]

Life would be tight even *with* Lisa working. She and Steve drove a "well-worn minivan" and an "aging Chevy Blazer." They scoured "discount stores for bargain detergent and consignment shops for $1.50 jeans." They rose before dawn to get their daughter to a free preschool. Still, they found themselves considerably better off than most young Fairfax County families. Thanks to an inheritance, Steve and Lisa had manageable mortgage payments, only $1,280 a month. That left them enough extra cash to add a deck to their home and drive into the mountains for hiking vacations.[192] But Steve and Lisa, even with that inheritance, didn't live a middle class life nearly as comfortable as the life that Lisa's parents had enjoyed.

Lisa's folks had raised their family only a few blocks from where Lisa was now raising hers — in a bigger house. Lisa's dad, a federal employee, had been able to buy and pay off that house on just his salary alone. Lisa's parents didn't seem to need a second income. They "always took nice vacations" anyway, "traveling throughout North America."

Lisa could not provide those sorts of experiences for her children. She ended the boom years wondering what she and Steve had done wrong. They hadn't been "wild spenders." They had worked hard. So why was middle-class life in Fairfax County so much sweeter for her parents? How could her parents, on one public employee salary, afford a lifestyle that Lisa and her family, on two full-time salaries, couldn't come close to matching?

LISA PAGLIOCCHINI IN THE 1990S and her parents in the 1960s raised families in decades that were, on one level, amazingly alike. Both decades saw record-breaking economic expansions. The 1960s boom started in February 1961 and didn't end until over a hundred months later, in December 1969.[193] The American economy had never before expanded for so many consecutive months. This 1960s record would not be broken for a generation, not until the boom of the 1990s opened in March 1991 and marched along, triumphantly, for ten full years.

Two decades, two booms. In both decades, gross domestic product soared. In both decades, jobless levels sank. But the two decades would not be identical. In only one of them — the 1960s — would average Americans prosper.

Lisa Pagliocchini's parents, in the 1960s, lived through a middle-income golden age. The median family income in this golden age, the income earned by the typical American family, zoomed 39.7 percent over the course of the decade, *after* taking inflation into account.[194] In the 1990s boom, by contrast, American median family income inched ahead, after inflation, just 3.9 percent.[195]

In the 1960s, wages and salaries rose substantially across the occupational landscape. In the 1990s, jobs that used to help people climb up the economic ladder didn't even pay enough to outpace increases in the cost of living. Teachers, airline pilots, and clergy all lost ground in the 1990s. Over the course of the decade, overall, about one fifth of America's most common occupations "saw wages decline after adjusting for inflation."[196] Most other occupations barely held their own. Real-estate brokers, registered nurses, and construction workers saw pay hikes that amounted, after inflation, to less than 1 percent a year.[197]

In the 1960s, poor people did just as well as their middle-income neighbors. The official poverty rate, 21.9 percent in 1961, dropped more than 40 percent over the next seven years, to 12.8 percent.[198] The 1990s boom gave poor people no such hefty helping hand. The official poverty rate dropped only marginally in the 1990s, from over 13 percent at the start of the decade to a bit under 12 percent in 2000.[199]

Throughout the 1960s, in other words, average Americans raced ahead economically. In the 1990s, average Americans made no significant progress whatsoever.

How could that be? How could average people benefit so substantially from 1960s prosperity and benefit so meagerly from the prosperous 1990s? Distribution, in the end, would make the difference. In the 1960s, most all the new wealth created would be shared across the economic spectrum. In the 1990s, by contrast, the benefits from the booming economy would not be shared. The goodies from the good times would concentrate, overwhelmingly, in the pockets of people at the top.

The 1960s and the 1990s actually help tell a broader story. Each decade climaxed an era.

The first of these eras began right after World War II and lasted into the early 1970s. Throughout this quarter century, the gains from America's growing economy swelled the wallets and pocketbooks of low- and middle-income Americans.

Between 1947 and 1973, a family at what researchers call the twentieth percentile — that is, a family at the top of the poorest fifth of American families

— saw its income just about double, from $10,270 to $20,214, in dollars inflation-adjusted to 1996 levels.[200]

During these years, America's lowest-income families, the bottom fifth of income-earners, increased their total share of America's national income by 10 percent.[201]

Middle-income Americans, in this first quarter century after World War II, would do even better. Families at the fortieth percentile — the bottom of the middle class — saw their incomes *more* than double, from $16,572 to $33,355. So did families at the sixtieth percentile, the top of the middle class. Their incomes leaped from $22,472 to $46,538.[202]

And wealthy families? Between 1947 and 1973, affluent family incomes rose, too, but not as rapidly as did the incomes of poor and middle-class families. By 1973, the total share of the nation's income pulled in by wealthy people had actually fallen. In that year, the most affluent 5 percent of American families took in 11 percent less of the nation's income than they did in 1947.[203]

The 1990s climaxed a substantially different era. In this second era, the years from the mid 1970s through the end of the century, the gains generated by America's growing economy did not enrich Americans up and down the economic spectrum. These gains concentrated — at the top. Over the first half of this second era, between 1977 and 1990, nearly 80 percent of all the nation's income gains, according to one estimate, "fell into the pockets of the top 1 percent of families."[204] America's richest 1 percent received 62 percent of all new wealth created between 1983 and 1989 and an even greater share, 68 percent, of the wealth created between 1989 and 1992.[205]

"If these trends continue," NYU economist Edward Wolff predicted midway through the 1990s, "the super rich will pull ahead of other Americans at an even faster pace in the 1990s than they did in the 1980s."[206]

The super rich would essentially do just that. Between 1992 and 2001, the households in America's richest 1 percent increased their share of the nation's income by 71 percent.[207] In 2001, the Census Bureau would report, the share of the nation's income going to the poorest fifth of Americans and the middle fifth of Americans dropped to the lowest levels ever recorded.[208]

So what happened to Lisa Pagliocchini's shot at the American dream? In the prosperous 1990s, why couldn't she and her husband, with two incomes, bring their family the same middle-class comforts that Lisa's parents, with just one income, had been able to bring theirs? The two families simply lived in different times. In the era Lisa's parents enjoyed, the era climaxed by the 1960s, average Americans shared in their nation's prosperity. In the era that saw Lisa start her family, gains concentrated at the top. That considerable share of the nation's prosperity that went to Lisa's parents in the 1960s — and millions of middle-income people like them —went, in the 1990s, to Lisa's bosses.

In 1968, the best-paid boss in the entire United States, General Motors chief executive James Roche, made 142 times the pay of America's average worker. Thirty years later, America's best-paid boss, Disney CEO Michael

Eisner, took home twenty-five thousand times more than the average American worker.[209]

The corporate executives who employed Lisa's generation, the financiers who bankrolled these executives, the corporate raiders who played footsie with the financiers — all these movers and shakers captured, as the last quarter of the twentieth century unfolded, an ever greater share of the wealth that working Americans created. They turned the middle-class golden age of the 1960s into a 1990s gilded age that only the affluent could truly enjoy.

Average Americans, back in the 1960s, would never have imagined that this sort of turnaround could ever take place, not in the United States of America. In their America, the fruits of prosperity seemed to be more widely shared each and every year. The days when elites could hoard America's rewards, they believed, had passed and could never return, not in a society as democratic, as just, as sensible as theirs. Only depraved civilizations let great wealth concentrate at the top.

Even Mr. Spock said so. In 1969, in one of the last original *Star Trek* episodes, America's most popular pop philosopher calmly explained why life on the planet Ardana was most certainly headed down the wrong path. On Ardana, *Star Trek* viewers had learned, rulers lived amid luxury in a cloud city while miners toiled in wretchedness below.

"This troubled planet is a place of the most violent contrasts," Mr. Spock noted. "Those that receive the rewards are totally separate from those who shoulder the burdens. It is not a wise leadership."[210]

Millions of 1969 viewers no doubt gave Mr. Spock's analysis a knowing nod. Rewards, they agreed, ought to be shared. Nothing good could come from any society where they weren't. So assumed average Americans in the 1960s. They were right.

CHARITY AND COMPASSION

IN COLUMBUS, OHIO, at the start of the twenty-first century, the richest man in town lived a relentlessly paranoid life. Billionaire Leslie Wexner, a retail king, would not set foot off his massive estate — nearly fifty thousand square feet of living space — without his trusted bodyguards. And he wouldn't set foot into any local event that sought his presence until dogs had first had a chance to sniff the grounds for bombs.[1]

And what did the good people of Columbus feel about this peculiar behavior? No big deal, a lifelong local told *Worth* magazine. Down through the years, Wexner had been, "so charitable," on everything from education to medical research, that people essentially didn't care how he behaved. Wexner wasn't just the richest man in town, he was the most generous, too, "a wonderful plum for the city."[2]

Societies where great fortunes grow, the admirers of affluence have always argued, will regularly produce "plums" like Leslie Wexner, millionaires and billionaires eager to enrich their communities with an unending stream of philanthropic dollars. The greater the fortunes, the greater the philanthropy.

And who could dispute that?

Certainly not the zookeepers of San Diego. By century's end, Joan Kroc, the widow who inherited the original McDonald's fortune, had given her local zoo and assorted other good works nearly a quarter billion dollars.[3]

Certainly not literacy activists in Mississippi. Early in 2000, they had corralled the "largest private donation ever to promote literacy," a $100 million gift from former Netscape CEO James Barksdale and wife Sally.[4]

And certainly not the medical educators at UCLA. Movie magnate David Geffen awarded them $200 million in 2002, the biggest single gift ever made to an American medical school.[5]

Big fortunes, big gifts. In our contemporary United States, land of the world's most king-sized fortunes, nearly every community seems to be able to claim a plum or two.

Louisville, for instance, claims Owsley Brown Frazier, a billionaire who made his fortune off Jack Daniel's and Southern Comfort, then poured millions into local health care, museums, and education.[6]

"The guy is just awesome," smiles a former mayor of Frazier's fair city, Jerry Abramson. "Louisville is a far better community because of his involvement."[7]

Want awesome? How about Warren Buffet, the world's second-richest man. Buffet has indicated that his massive fortune in equities will, after he and his wife pass on, all be given away.[8] Bill Gates, the world's richest man, has done Buffet one better. He has let it be known that most of his immense fortune, as much as 95 percent, will be given away *before* he dies.[9] The Bill and Melinda Gates Foundation, had already become, by 2002, the "wealthiest philanthropic organization in the world," annually spending more money fighting malaria and other world health problems than the government of the United States.[10] Gates has repeatedly described himself as just "a steward of his immense wealth" and has noted, just as frequently, "what a great privilege" it will be to meet his steward's responsibility and return that wealth "to society."[11]

In the meantime, of course, Gates and other awesomely affluent people will continue to accumulate. The more they amass, the more they will be able to give away, as Steve Kirsch, an aspiring Silicon Valley billionaire, explained to an inquiring reporter in 1999.

"It would be fun to be a billionaire," Kirsch acknowledged, but the ultimate benefit of amassing a billion, he quickly added, "would be the ability to pass more money on to charity."[12]

The more money people like Steve Kirsch have, people like Steve Kirsch hope we understand, the better off the rest of us will be.

AMERICANS TODAY, BY AND LARGE, have come to see great and generous philanthropy as something that just happens — naturally — whenever wealth concentrates. The wealthy make money. The wealthy, sooner or later, give that money away. So why get alarmed about great fortunes? Within every great fortune sits a cash cow for charity.

Our republic's earliest citizens, by contrast, found great fortunes distinctly alarming. Any concentrations of wealth left unchecked, they believed, would doom their young democracy to the same aristocratic decadence they had taken up arms against the British to reject. In the early 1800s, these widely held apprehensions about grand concentrations of wealth had prosperous men of commerce — and their fledgling fortunes — on the defensive. In New England, by the 1830s, grand new textile mills had generated "an embarrassment of riches" for Boston's wealthiest families, note two scholars of the era, Peter Hall and George Marcus. These wealthy families "became increasingly preoccupied" with justifying their good fortune. They needed, somehow, to square "the fact of possession" with America's "dominant egalitarian and democratic values."[13]

Boston's wealthy "Brahmins," to a significant degree, would succeed in their squaring effort, largely by filling their city with America's first great charitable works. The glorious institutions made possible by Brahmin philanthropy — the Massachusetts General Hospital for one — demonstrated clearly that the "generous rich" were exerting their influence "only for beneficent purposes," Harvard's Samuel Atkins Eliot would argue in 1845.[14] Great fortunes, their most devoted admirers pronounced, were making Boston a better place to live, work, and pray.

In the decades after the Civil War, the flacks for the fortunate would once again find themselves forced to resquare the "fact of possession" with America's egalitarian values. Giant new corporations were creating the greatest fortunes America had ever seen and, at the same time, convulsing the nation. Brahmin-style philanthropy — a hospital here, a museum there — now seemed inadequate, and the greatest fortune-founders of the Gilded Age, men like Andrew Carnegie and John D. Rockefeller, came to understand that simply giving more, Brahmin-style, would just not do. These men of enormous wealth needed, as scholars Peter Hall and George Marcus note, to "explain why 'men of affairs' like themselves should have come to control such vast resources." They needed "to legitimate that control as part of the natural scheme of things." To meet that goal, their philanthropy would have to do more than merely alleviate distress. Their philanthropy would "aim to identify and eradicate the causes of poverty, dependency, and ignorance." The mighty multimillionaires of the Gilded Age would not simply justify their wealth as a means of "service to the public." They would portray themselves "as servants of Progress — midwives, as it were, of the new industrial order."[15]

Andrew Carnegie, before his 1919 death, would devote an estimated $350 million of his personal fortune, about $7 billion in today's dollars, to serving "Progress."[16] His philanthropy would reshape America. His matching grants gave thousands of communities their first public libraries. His pension system, the first ever for college professors, "transformed" scholarship in the United States. His beneficence bankrolled organs for churches and "endowed an institute for peace, that elusive heaven on earth."[17]

"The man who dies rich," Carnegie had once noted, "dies disgraced."[18]

Carnegie would not die disgraced. America was impressed.

John D. Rockefeller did some impressing, too. He stepped back from his oil empire in 1897 and spent his last forty years giving away a fortune worth, in today's dollars, about $6 billion.[19] Rockefeller's dollars helped create America's national park system. He gave birth to Colonial Williamsburg and the University of Chicago. His Rockefeller Foundation, established in 1913, set out to do nothing less than "promote the well-being of mankind."[20] If that "well-being" could not, in the end, be assured, the fault — many Americans came to believe — was certainly not John D.'s. He had tried.

Three generations later, the flacks for America's newest men of fortune would proclaim a new golden age of giving. America could once again see grand-scale philanthropy, the flacks promised, if we as a nation cheered on the creation of Carnegie-sized fortunes. To inspire and enable more giving, more splendid good works, we needed merely to let the wealthy amass more wealth.

"Many people still think that commerce and charity are at opposite poles," Steve Forbes, the heir to one of America's greatest publishing fortunes, observed in 2001. "They are actually two sides of the same coin — the coin of serving others."[21]

The annual charitable giving numbers from America's top charity scorekeeper, the Center on Philanthropy at Indiana University, seemed to document this direct connection between commerce and compassion.[22] In the booming 1990s, Americans set new records for charitable giving year after year. In 1998, individual contributions to nonprofits in the United States jumped over 10 percent, to a record-busting $134.8 billion.[23] In 1999, donations by individuals climbed substantially once again, to $144 billion.[24]

"Clearly," announced Bruce Reed, a top White House executive, in 2000, "America is in a charity boom."[25]

The flacks for America's grand fortunes smiled. Their case had been made. In an America that let the wealthy be, the needy, not the greedy, were emerging as the biggest winners of them all! Or so they claimed.

THE WHITE HOUSE AND THE FLACKS FOR FORTUNES would only be wrong on two counts. At century's end, charities were not booming, and the truly needy were not winning.

America's wealthiest had indeed become wealthier over the course of the boom years. America's charities had not. Americans, the *New York Times* reported at century's end, were actually giving "to all forms of philanthropy" at a less, not a more, generous rate.[26]

That conclusion came out of data collected in 1999 by the Independent Sector, a coalition of philanthropic organizations. *Total* giving may have been rising, the Independent Sector data documented, but giving *rates* were actually dropping. In 1998, for instance, American households contributed 2.1 percent of their incomes to charity. A decade earlier, by comparison, American households had given away to charities 2.5 percent of their incomes.[27] Giving, as a percentage of income, had actually been falling for years. In 1960, sociologist Robert Putnam pointed out, Americans donated to charity "about $1 for every $2" they spent on recreation. Americans, in 1997, gave away less than fifty cents for every $2 spent on leisure.[28]

How could the economy be booming and giving rates dropping? Those benefiting the most from the boom, observers started pointing out midway through the 1990s, just did not seem to be in a giving mood.

"The real problem," conservative columnist James Glassman charged in 1996, "lies squarely with the upper brackets."[29]

Between 1980 and 1991, a *Wall Street Journal* commentary had noted the year before, the incomes of people earning more than $1 million a year had soared by about 80 percent, after adjusting for inflation. Over these same years, the average charitable contributions out of the million-plus crowd dropped 57 percent.[30] Over twenty thousand households with incomes more than $500,000, sociologist Andrew Hacker added in a 1995 analysis, did not list a single charitable deduction on their tax returns.[31]

What were all these wealthy households waiting for? The hereafter? Apparently not.

"By one count," the *Economist* reported in 1998, "eight in ten Americans earning more than $1 million a year leave nothing to charity in their wills."[32]

Some observers blamed the high-tech new rich for the absence of generosity in deep-pocket circles. A 1999 survey, conducted by the Community Foundation of Silicon Valley, "found that 45 percent of the wealthiest contributors in the region give just $2,000 or less a year to charity" — and 6 percent "give nothing at all.[33]

One long-time local big giver, the seventy-six-year-old Leonard Ely, faulted Silicon Valley's young whippersnappers for this dismal philanthropic performance.

"They're all millionaires and billionaires by the time they're 30," Ely growled in an interview. "Look," he recalled one wealthy whippersnapper telling him, "I don't have my Ferrari and my place in Tahoe, and you're telling me I should give money away?"[34]

But Silicon Valley's young fortune-makers weren't the only fakers on the corporate scene come giving time. Mature, sober, respected captains of industry could be equally closefisted. Among these less than generous captains of industry: Dick Cheney, George W. Bush's choice for the nation's second-highest office. As a corporate executive in the 1990s, Cheney donated a microscopic 1.01 percent of his $20.7 million income to charity. Reporters revealed this embarrassing little fact during the 2000 Presidential campaign, and an angry Cheney immediately charged that the press numbers shortchanged his actual giving. His charitable contribution total should be adjusted, Cheney claimed, to include the $89,500 in speaking fees he had earmarked directly to charity and the $143,820 his company shelled out in contributions to match his personal giving. Reporters did the quick math. Adding these additional donations brought Cheney's giving rate up to all of 2.14 percent.[35]

Some mature, sober, respected captains of industry, to be sure, did not follow Cheney's parsimonious lead. In Los Angeles, the admirers of the awfully affluent could point proudly to their own local $6 billion man, the home-building and life insurance magnate, Eli Broad. In 1999, Broad put $100 million into education. In 2000, he upped his total charitable giving to over $137 million.[36]

"If he were emulated by other rich people," Jill Stewart, a local political columnist, wished out loud, "my God, we'd have a truly great society."[37]

But Eli Broad, as generous as his giving appeared, hardly deserved this sort of unabashed adulation. Even headline-grabbing donors like Eli Broad, truth be told, were giving "far less to charity than they should — or could."[38]

One wealthy man spent the twentieth century's last decade working tirelessly to get that message across. He failed.

CLAUDE ROSENBERG, IN THE 1990S, was a man on a mission. America's wealthiest families, he was convinced, could easily afford to give far more to charity than they were actually giving. Why weren't wealthy people giving more? No one who knew how wealth works, Rosenberg believed, had ever told the wealthy how much they could comfortably afford to give. He would.

Rosenberg expected the rich would listen. He was, after all, no crackpot. Over four decades, Rosenberg had forged an admirable reputation in investing circles. He had built up, at J. Barth & Co., the largest regional investment research operation in America. He had authored five books on finance, including one classic, *Stock Market Primer*, that went on to sell over half a million copies. He had founded two successful investment companies. One eventually managed over $60 billion in assets.[39]

These business triumphs had, naturally enough, generated a substantial personal fortune for Rosenberg, a fortune he went on to share generously with his family foundation. By century's end, the Rosenberg family foundation had amassed $32 million in assets.[40]

With this exemplary background, Claude Rosenberg felt he could speak about fortunes and philanthropy with as much credibility as anyone. And the frustrated Rosenberg had plenty to say. Over the years, to help his favorite charities solicit contributions, Rosenberg had often approached acquaintances with substantial fortunes. He had expected suitably substantial checks. These checks didn't come.

"I was disappointed, even angry, that people I knew were giving little compared to their estimated wealth," Rosenberg would later note.[41]

Wealthy people, Rosenberg eventually concluded, were basing their giving decisions on their annual income, not on the combination of that income and their already accumulated wealth.[42] If the wealthy took this wealth into account, not just their incomes, they would realize that they could afford to contribute far more to charitable causes.[43]

In fact, Rosenberg's calculations revealed, if America's most fortunate took their already accumulated wealth into account, they could increase their annual giving enormously and still end up each year richer than when they started.

Just how enormously? In 1991, the over fifty thousand Americans who made over $1 million for the year contributed, on average, a modest $87,000 a year to charity. These wealthy Americans, Rosenberg's data showed, could have upped their contributions to charity by ten times and still ended the year with more wealth to their names than when the year opened.[44] And if all these wealthy families had, in 1991, boosted their giving tenfold, America's charities would have received an astonishing $40 billion more in charitable contributions than they actually did![45]

Rosenberg explained all this, patiently and clearly, in a 1994 book, *Wealthy and Wise: How You and America Can Get the Most Out of Your Giving*. A few years later, in 1998, he would found an advocacy and research organization, the NewTithing Group, to spread the book's message. This new group would quickly pick up a host of celebrity endorsements, with notables from mutual fund wizard Peter Lynch to former President Jimmy Carter saluting the effort.[46]

"Our main point is that generosity has been based too much on income," Rosenberg would point out at every opportunity. "With capital for many people being so much larger than income, there is enormous untapped capacity to give."[47]

Rosenberg did everything he could, as the 1990s moved along, to help affluent families better understand their "untapped capacity." His NewTithing Web site would even offer a charitable capacity calculator.[48] Wealthy families, the calculator exercises demonstrated, could live normally, in the lifestyle to which they had become accustomed, and still, at the same time, significantly increase their giving.

Rosenberg would also appeal, throughout his tireless outreach efforts, to the hopes and dreams of his target audiences.

"I am trying to convince people, especially wealthy people, that it is very much in their interest to give away much more and to create a society where they can live safer, happier, better lives," Rosenberg told one reporter. "They just need to change how they think about how much they can afford to give."[49]

And if the wealthy didn't do that rethinking, Rosenberg warned, then darker days would surely be ahead.

"America's lopsided distribution of resources could one day result in heavier taxation of the wealthy," he cautioned. "And in difficult economic times, growing inequality could lead to more frequent threats of violence and even destruction of property aimed at the affluent."[50]

By the end of the 1990s, no single individual could have possibly done more than Claude Rosenberg to convince affluent Americans to up their charitable contributions. His ideas had been featured in the *Wall Street Journal* and a host of other major publications. He had delivered speeches coast to coast. He had even pushed his cause out into cyberspace.

The wealthy, for their part, didn't push back. They simply, as a group, ignored Rosenberg's message. Almost completely.

In the 2000 tax year, according to data NewTithing released in 2002, Americans as a whole gave about $150 billion to charity. They could have actually afforded to give, without losing any net worth, more than twice that amount, $320 billion in all.

The bulk of that extra $170 billion that could have been given — but wasn't — should have been given by America's wealthiest households, those households making at least $1 million for the year. These households each gave, on average, only $122,940 to charity in 2000.[51] They could have given nearly ten times that amount, $1,031,000 to be exact, and still not lost a cent off their net worth.

In all, households that made over $1 million in 2000 could have that year afforded to give over $128 billion more to charity than they actually did.[52] In 1991, by comparison, the superwealthy could only have easily afforded to give $40 billion more than they did.

So what had Claude Rosenberg's valiant campaign accomplished? Wealthy Americans, after years of exposure to NewTithing proselytizing, were most probably wiser about their wealth. But they were not the least bit more generous.

CLAUDE ROSENBERG AND HIS FELLOW RESEARCHERS at the NewTithing Group, in the course of their work, pumped out a steady stream of data that reinforced their main thesis, that wealthy Americans could painlessly afford to significantly increase their charitable giving. But NewTithing's data also documented another, equally important reality. Wealthy people, the data showed, are less generous with their dollars than low- and middle-income Americans — and the wealthier families become, the less they give, as a share of their income and wealth.

In 2000, for instance, average households at each income level below $100,000 contributed, according to NewTithing's calculations, every dollar they could comfortably afford to give. They, in effect, "maxed out" on their charitable contributions, as measured against the NewTithing standard.

America's more affluent households did not come anywhere close to maxing out. Those households that earned between $100,000 and $200,000 in 2000, for instance, gave to charity only 70 percent of what they could have comfortably afforded to give.

But these households making between $100,000 and $200,000 were veritable Mother Theresas compared to families higher up on America's economic ladder. In 2000, households making between $200,000 and $500,000 a year gave away to charity just 36 percent of what they could comfortably have afforded — and those that reported income between $500,000 and $1 million gave a mere 21 percent.

And what about the top, those families earning over $1 million a year? Households at this loftiest level gave away only 12 percent of what they could have given without crimping their lifestyle or shrinking their net worth.[53]

In these numbers, a profound lesson: The more wealth concentrates, the fewer the dollars that make their way to good causes.

Over recent years, other researchers have documented the same dynamic. One 1996 study, commissioned by Independent Sector, found that Americans earning less than $10,000 a year in 1995 gave a higher proportion of their pretax incomes to charity than households earning more than $100,000, by a 4.3 percent to 3.4 percent margin.[54] About the same time, British researchers compared the charitable giving rates of the nation's five hundred richest donors with the giving rates of modest suburban families. The suburbanites gave at a rate "three times higher" than England's wealthiest donors.[55]

In 2003, new research would dramatically deepen our understanding of exactly who gives what. The researchers behind this new work, published by the *Chronicle of Philanthropy*, had sifted through itemized tax returns filed for 1997, the only year with tax data then available by zip code. From these returns, the researchers computed "discretionary income" totals, by subtracting household expenses for housing, food, and taxes from total incomes. The researchers then calculated, for taxpayers who had earned at least $50,000, charitable giving as a percentage of discretionary income.

The result? In state after state, county after county, taxpayers in wealthy communities gave less of their income to charities than taxpayers in poorer communities.

In the Washington, D.C. metro area, residents of Fairfax County, the nation's most affluent county, gave 6.3 percent of their discretionary income to charity. Residents of Prince George's County, the least wealthy of Washington's large jurisdictions, gave 16.7 percent of their discretionary incomes to charitable groups.[56]

In California, Marin County residents claimed more discretionary income than residents from any other major local jurisdiction. But the county, the *Chronicle of Philanthropy* found, ranked next to last in share of income devoted to charity. Marin County residents gave away only 6.5 percent of their discretionary incomes.[57] California's most generous spot? That appeared to be Solano County, where local residents donated 12.4 percent of their discretionary incomes to charity. These Solano County residents had fewer discretionary dollars than the residents of any other county in California.[58]

In Texas, residents of the state's most affluent jurisdiction, Collin County, outside Dallas, donated 6.5 percent of their discretionary incomes to charity. Only one jurisdiction in Texas donated at a stingier rate. Residents of the much poorer Johnson County donated nearly twice as much, 12.5 percent, as their wealthy Collin County brethren.[59]

Numbers like these tell us a great deal about out of whose pockets charitable contributions come. But they don't tell us where charitable contributions go — and that's information we need to know, in the final analysis, before we can make any reasonable judgment about the importance of the charitable contributions that wealthy people make.

Wealthy people, for instance, might do a better job targeting their contributions to the truly needy than average donors. If this were the case, then America's concentrated wealth would still be cause for celebration, even if less affluent Americans donate more of their incomes to charity than wealthy people do. But this is not the case. America's wealthy, as a group, aren't just less generous than average Americans. America's wealthy are also less likely, with the donations they do make, to help needy people.

"It's a mistake to believe that the wealthy are contributing mainly to causes that help the poor," as Teresa Odendahl, the director of the National Network of Grantmakers, told *American Benefactor* magazine in 1997. "The majority of their money goes to their churches, their universities and schools, and to the arts — these are nonprofit organizations that serve them."[60]

Slate, the online magazine, helped drive home the same conclusion after the magazine started compiling annual lists of America's biggest donors. The listings helped show "that when wealthy Americans give, they tend to give to universities, medical research centers, and cultural institutions — not organizations to help the poor."[61] On one annual *Slate* biggest donor list, not a single top donor "gave money to provide for social-welfare services, such as homeless shelters."[62]

Wealthy people typically devote their charitable energies to the good causes that make them feel most at home. At the end of 1998, for instance, Eckhard Pfeiffer, the CEO of Texas-based Compaq Computer, sat on the boards of four nonprofits: the Houston Symphony, the M. D. Anderson Cancer Center in Houston, Southern Methodist University, and the Greater Houston Partnership, that city's leading advocate for the business community. Pfeiffer had personally taken in pay and stock options worth $192.5 million the previous year. His company, that same year, made charitable contributions that totaled all of $4.2 million.[63]

Pfeiffer by no means stood alone. His fellow elite CEOs, in the boom years of the 1990s, exhibited the same philanthropic priorities and proclivities.

"These guys cut the wages, cut the health benefits, raid the pension funds, eliminate the jobs and pocket all the profits," thundered *New York Observer* columnist Nicholas Von Hoffman. "They share nothing, they give nothing away except to the cancer clinics they go to, the colleges they send their kids to and the business schools they get their junior henchpersons from. The museums they do favor have been turned into annexes where they throw their private parties."[64]

BY THE END OF THE 1990S, two decades of unshared prosperity had left America's wealth concentrated in the pockets of men like Eckhard Pfeiffer. These same years had left the United States less, not more, charitably inclined to those who needed charity the most.[65]

In 1998, out of all the dollars donated to nonprofits, fewer than one in ten, only 9.2 percent, went to groups dedicated to providing basic human services, according to Indiana University's Center on Philanthropy. In 1970, by comparison, Americans gave to human service charities at a rate more than 50 percent higher.[66]

Why the difference? Americans, back in 1970, lived in a society where wealth had not yet concentrated in prodigious piles. Middle-income people controlled a much greater share of the nation's assets and income in 1970 than in 1998, and America's charitable giving patterns in 1970 reflected this greater middle-income influence. By century's end, with wealth considerably more concentrated, America's most fortunate had come to set the philanthropic tone. Our nation's increasing insensitivity reflected their dominance.

Back in 1931, after the Roaring Twenties, another time of unshared prosperity, America's wealthy also set our nation's philanthropic tone. In that year, with the Great Depression well under way, the governor of Pennsylvania came before Andrew Mellon, the then U.S. secretary of the treasury and, in his own right, one of the nation's richest men. The governor had a desperate request. Would Secretary Mellon, he asked, be willing to make a $1 million *personal* loan to help Pennsylvania meet its "welfare needs"?

Secretary Mellon, the history books tell us, never did make that personal loan to Pennsylvania. But he did proudly show the good governor his latest art purchase, a grand master painting that had set Mellon back $1.7 million.[67] Secretary Mellon, in one of the greatest philanthropic gestures in American history, would later donate that painting and the rest of his magnificent art collection to the nation. The National Gallery of Art, in Washington, D.C., today testifies to his generosity.

So maybe we shouldn't get so cross with the wealthy. At giving time, they might not dig down as deep in their pockets as the rest of us. And their philanthropy might not show much in the way of compassion for the less fortunate. But wealthy people sure do appreciate the finer things in life. Without their commitment to the arts, and the fortunes they invest in art, where would our culture be?

Where indeed.

7

CULTURE AND ART

ART MUSEUMS. CONCERT HALLS. OPERA HOUSES. These remain today our standard symbols of high culture. These are the places, from generation to generation, where great art survives. They define us. They showcase the best of the human spirit. And they wouldn't exist, we are constantly reminded, without rich people.

Affluence and the arts have always gone — and will always go — together, or so the friends of fortune have always contended, down through the centuries. To create, artists need patrons, individuals who can both appreciate great art and support the artists who create it. Only wealthy people can adequately fit this patron bill. Only wealthy people, the classic "leisure class," have the time to cultivate a sophisticated appreciation for art. Only wealthy people have the wherewithal to keep starving artists from starving.

"The rich make life more interesting: they are a luxury a civilized society should be able to afford," as William Davis, one admiring chronicler of the ways of the wealthy, has noted.[1] "Walk around any museum and look at the treasures they have left us, and ask yourself what there would be to see if Communism had arrived four centuries earlier."[2]

An art lover so inclined might start this walk-around exercise at New York's glorious Metropolitan Museum, the perfect place to reflect upon the cultural contributions of J. P. Morgan, the greatest business kingpin — and art collector — of his time. Morgan, before his 1913 death, spent over $900 million, in today's dollars, buying artwork. He literally stocked America, most notably the Metropolitan Museum, "with the world's great art."[3]

An art lover in a reflective mood might next want to drop in on New York's Museum of Modern Art and contemplate here the far-flung legacy of banker David Rockefeller, the grandson of J. P. Morgan's contemporary, John D. Rockefeller. David, the museum's chairman emeritus, devoted years of his life "acquiring fine art, especially Impressionists and early Modern masters like Picasso" and years more "creating a corporate art program that today numbers over 20,000 works in 350 locations."[4]

What would art in America have done without David Rockefeller? And what would art in America do without the men of means who have followed in his art-collecting footsteps, the billionaires like Bill Gates who, in 1994, transformed "himself from a role model for nerds into a cultured gentleman" by laying out $30.8 million for a celebrated notebook of jottings and drawings by Leonardo da Vinci.[5] Four years later, for $36 million, Gates added Winslow Homer's *Lost on the Grand Banks* to his increasingly impressive collection. No one had ever paid more for a painting by an American.[6]

The love of fine art, some observers believe, just comes naturally to the very rich.

"Billionaires almost cannot help becoming art collectors," noted one recent survey on the art-collecting scene in *Forbes* magazine. "With so much money and, usually, so many houses to decorate, it only makes sense that they would surround themselves with much of the world's finest artworks, furniture, porcelain and other objects of beauty."[7]

Once imbued with this love of beauty, rich people just seem to have to share it. They simply cannot bear the thought of a museum going without. In 1999, for instance, high-tech multimillionaire Jonathan Ledecky found himself attending a fundraising dinner for the famed Phillips Collection. The museum, Phillips officials explained, needed a few dollars for a refurbishing project. "Ledecky leaned over to a high-tech pal," the *Washington Post* would later report. "'I'll go half if you go half,' he whispered. 'Let's announce it right now at this little dinner.' 'Done,' said his friend."

"And the museum had an additional $375,000," the *Post* related. "Just like that."[8]

In the closing years of the twentieth century, rich people seemed to be making it happen — "just like that" — for cultural institutions all across the United States, and all the arts, performing as well as visual, seemed to share in this generous benevolence. In New York, financial services mogul Sanford Weill took over as the chairman of the Carnegie Hall board in 1991. Over thirty fellow CEOs would eventually join Weill on that board, with each expected to donate $100,000 a year. Midway through the 1990s, Weill upped the ante. He announced a $75 million fundraising goal for Carnegie Hall's endowment and "almost immediately raised half of it from the board, the average director contributing nearly $600,000."[9]

Weill's high-minded, high-octane philanthropy reflects, according to art critic Hilton Kramer, "a well-established American tradition."

"Anyone familiar" with America's great cultural and educational institutions, Kramer argued in 2001, "knows that most of our major art museums, concert halls, libraries, universities, and research institutions were created by private wealth."[10]

The more private wealth in the pockets of wealthy people, cultural guardians like Kramer believe, the more secure our culture will be. Wealthy Americans, at least as far as the arts are concerned, may be the ultimate "good hands people." They preserve and protect our cultural patrimony. They can be counted on — unless the rest of us do something stupid, like tax their fortunes away — to make America not just rich, but beautiful.

FOR WELL OVER A GENERATION NOW, ever since the late 1970s, the rest of us have cooperated. We have taken no steps toward taxing great fortunes. Instead, we have reduced the taxes the wealthy are expected to pay. We have sat back and watched new J. P. Morgan-sized fortunes emerge, one after another, right in the heart of America's greatest cultural centers. We should now, as a result, be witnessing a flowering of fine art in America, a veritable renaissance. Are we? Some observers think so.

These observers marvel at the amazing new additions to America's cultural landscape. In Los Angeles, they applaud the visually stunning J. Paul Getty Museum, "a Shangri-La and Starship Enterprise rolled into one."[11] The Getty opened in 1998. That first year, 1.8 million visitors "would brave the rigors of limited parking" to ogle the masterworks assembled by Texas oilman J. Paul Getty's billions. So many people came — "by car pool, by shuttle bus, by taxi" — that museum officials found themselves forced to launch "an anti-attendance advertising campaign." That campaign worked. Attendance at the Getty dropped to a more manageable 1.4 million in 1999.[12]

The next year, in Getty's home state, the Houston Museum of Fine Art would open a new wing named after Audrey Jones Beck, the granddaughter of Jesse H. Jones, Houston's most celebrated business leader. Over the course of the new wing's first twelve months, 2.2 million visitors rushed in.[13]

Overall, across America, museum attendance jumped 45 percent in the 1990s. Curators counted 900 million visits in all, and that was more, art enthusiasts exclaimed, than the total attendance for all the decade's pro baseball, basketball, and football games combined.[14] And Americans who weren't walking through art museums seemed to be taking their seats in theaters and concert halls. The performing arts, one report noted in 2001, "appear to be booming." More arts organizations were offering live performances than ever before.[15]

Even symphony orchestras, by the end of the 1990s, were sounding happy notes. A dozen years earlier, orchestral leaders were all but convinced their art form wouldn't make it to century's end. "The symphony orchestra as we know it is dead," Ernest Fleishmann of the Los Angeles Philharmonic had declared in 1987.[16] "There is little doubt," music critic Samuel Lipman had added, "that the long-expected terminal crisis of American orchestras is upon us."[17] But by century's end, the "terminal crisis" had passed, and the American Symphony Orchestra League trumpeted the news. In the 1999-2000 symphony season, the League noted, ticket sales hit nearly half a billion dollars, up 53 percent from 1990-1991. In this same 1999-2000 season, over two-thirds of America's top orchestras ran their budgets in the black. The 109 orchestras that shared their data with the League ended the year with a combined $12 million surplus.[18]

"Nine years before," the League crowed, "the same orchestras reported a combined survey deficit of $26.7 million."[19]

Did all this add up to a renaissance? Who knew for sure? But those attendance numbers certainly looked good and, at least in America's concert halls, sounded even better.

FANS OF AMERICA'S GREAT FORTUNES tend to see the history of the arts in America as a history of the wealthy in the arts. Artists make art. The wealthy buy it. The wealthy share it. Curtain down. A standing ovation from a grateful American public.

In real life, America's most wealthy, even in their flushest moments, have never made the sorts of investments the arts in America have needed to keep going and growing.

Americans first learned that lesson in the 1920s. In the Roaring Twenties, as in the 1980s and 1990s, new grand fortunes appeared to be popping up everywhere. The performing arts groups of the time had great hopes for these grand new fortunes. America's new super rich, they figured, would rescue art from grimy fiscal pressures. Artistic brilliance would shine anew. Culture would captivate America.

But the new super rich, in the 1920s, never rode to the rescue. They gave what they wanted, not what they could. The age's wealthiest individuals, one subsequent study of the arts noted, would prove "unable or unwilling" to subsidize "such high-cost performing organizations as symphony orchestras and opera companies."[20] Major arts groups, consequently, spent the decade scrambling. They aggressively solicited donations from whatever deep-pockets they could convince to serve on their boards. At the same time, they redoubled their ticket-selling efforts. But neither deep-pockets nor ticket sales would deliver the needed results. Chronic underfunding seemed destined to be the arts community's eternal burden.

At least until the 1950s. After World War II, arts activists began challenging the old funding formulas. The arts community, activists argued, needed to develop funding sources outside the ticket marketplace and traditional philanthropy. The arts, they believed, needed — and deserved — government support. In 1960, the activists would score their first breakthrough. In Albany that year, lawmakers would okay the creation of the New York State Council on the Arts, the first state arts agency in the nation.[21] Four years later, Congress would establish the National Endowment of the Arts. The federal government would now become, for the first time, a significant player in arts funding.[22]

In 1966, two leading scholars would blow away what remained of the polite fiction that live performing arts could "support themselves in the marketplace."[23] In a landmark study, economists William Baumol and William Bowen would help policy makers understand that the arts in America could make no real headway without help from tax dollars.[24] That understanding, in fairly short order, would speed historic increases in government aid to the arts. In community after community, federal dollars would begin leveraging growing "private and state and local government support for the arts through a system of matching grants and grants-in-aid to states."[25]

But this generous flow of public tax dollars would not, in the end, survive the Reagan era. In the 1980s, amid rising federal budget deficits and angry attacks from cultural conservatives, arts funding would start losing its political appeal on Capitol Hill. By the early 1990s, states and localities, not just Congress, would be cutting back on aid to the arts.[26]

With government support fading, the arts now needed new patrons. Once again, arts advocates would look to the super rich. Once again, they would be disappointed. Total individual contributions to performing arts organizations would increase over the course of the 1990s, but these increases would come largely from arts lovers of modest means, not from rich donors. And these smaller donations required "higher development costs" to obtain.[27] The bottom line for performing arts groups: After subtracting fundraising costs, the net revenues from individual contributions weren't nearly enough to keep pace with rising general operating expenses.

Corporate contributions would not make up the difference. Corporations, overall, did boost their total arts giving in the 1990s, but the executives who made these contributions tied them more tightly than ever before "to individual corporate marketing campaigns."[28] General operating deficits within arts groups continued to grow wider.

With individual and corporate contributions inadequate, with direct government subsidies evaporating, arts groups had no choice but to hunt for money in the marketplace. That meant, essentially, selling more tickets — at higher prices. And that meant, in turn, making artistic decisions based purely on economics. Who could fill the most seats at the highest prices? Arts groups knew the answer. Only big names could fill high-priced seats. So arts groups jumped on the big-name bandwagon. They increasingly produced "lavish programs featuring celebrity artists to attract large audiences."[29] Stagings of familiar, tried-and-true classics could also fill seats. So arts organizations increasingly recycled old "warhorses," in what would become known as the *Nutcracker* strategy. These old favorites delivered good bang for the buck. They could be produced cheaply — no need to bother with new sets — and arts groups, by producing warhorses instead of nurturing new work, could avoid paying royalties to creators.

Celebrity blockbusters and endless warhorse reruns would not, everyone involved understood, elevate America's general artistic levels. But blockbusters and warhorses weren't expected to have any elevating effect. They were only expected to give arts organizations a badly needed fiscal shot in the arm. Unfortunately, they didn't do that either. The marketplace, in the 1990s, would not deliver. The blockbusters and the warhorses would not raise enough revenue to offset shrinking support from government sources. By century's end, arts groups were receiving no more revenue from marketplace initiatives, as a share of total revenue, than they had back in the late 1970s.

"In the aggregate," researchers from RAND, America's original think tank, would note in a major 2001 study, "performing groups are about as dependent upon the market as they have been in the past, despite intensive efforts at marketing and audience development, and despite sharp rises in the cost of tickets."[30]

The RAND research, conducted for the Pew Charitable Trusts, analyzed America's entire theater, opera, dance, and music scene — and sounded some rather discouraging notes.[31] The researchers acknowledged that overall attendance at arts productions had increased somewhat between 1982 and 1997. But this increase, the researchers concluded, reflected population growth and related factors, "not an increase in the percentage of the population that engages in the arts."[32] And the population that did engage in the arts, the researchers found, was aging. In 1982, people under forty made up 27 percent of the audience for classical music. By the end of the 1990s, concert-goers under forty constituted just 14 percent of the classical music audience.[33]

On stage, among performers, researchers uncovered other troubling trends. The emphasis on blockbusters had tilted the rewards for performing to a few select superstars. The rest of America's performing professionals faced rising economic insecurity.

"On average," the study noted, "performing artists earn less, work fewer weeks, face higher unemployment and are much more likely to take jobs outside their profession than other professionals with comparable education."[34]

These trends, the RAND analysts argued, were driving a "fundamental shift" in America's "performing arts system." That shift, they explained, couldn't really be seen in America's biggest cities — or smallest towns. In the nation's largest urban centers, the nation's premiere arts organizations were continuing "to grow by focusing on star-studded productions that pull in the crowds." In small communities, meanwhile, the arts emphasis still remained on "low-budget live productions that rely largely on volunteer labor."[35] The changes were taking place everywhere else, in the mid-size metropolitan areas that had once employed the vast majority of professional performers. Arts groups in these mid-sized areas, the RAND researchers documented, "are facing the greatest difficulty in attracting enough of the public to cover their costs."[36] These mid-sized arts groups "lack the resources to put on blockbusters."[37] Many "are likely to disappear."[38] Those that hang on are likely to survive by eliminating almost everything but "traditional programming and fairly mainstream artistic endeavors."[39]

Do those who care about culture need to worry about these mid-sized arts organizations? After all, if elite arts groups in America's biggest cities are continuing to prosper and if volunteer arts groups are continuing to put on productions in small communities, what's the big deal? The big deal, the RAND researchers stressed, is the role that mid-sized arts groups in America have historically played. These mid-sized arts groups offer talented young performers the stages they need to get serious about their art and develop their skills.[40] But that's only the half of it. If mid-sized arts groups can only survive by relying on the stale warhorses of America's performing arts repertoire, innovation will likely become a luxury our culture simply cannot afford.[41]

In the 1980s and 1990s, the RAND research demonstrated plainly, America had experienced no renaissance in the performing arts — and no renaissance loomed.

"The world of the performing arts is sick and needs attention," Michael Kaiser, the president of the Kennedy Center for the Performing Arts, would agree late in 2002. "The arts world is moving close to becoming a virtual cartel of a few large mainstream organizations that survive and thrive. This would be catastrophic. A healthy arts ecology demands that we have large and small organizations, mainstream and edgy, and of all ethnic backgrounds."[42]

The RAND analysts, for their part, saw ahead an America "likely to make it more difficult for talented actors, composers, musicians, and dancers to mature artistically."[43] And this bleak future beckoned even in those places where wealth in the United States had concentrated the most, places where potential patrons of the arts could be found around every corner, places like Silicon Valley.

On June 4, 2002, in the capital city of Silicon Valley, the San Jose Symphony Orchestra announced plans to file for bankruptcy. The orchestra, a fixture in San Jose for over 120 years, faced debts that amounted to "more than a third of its annual $7.8 million budget." Many of the eighty-nine musicians in the orchestra, violinist Kristen Linfante told reporters, will be "going back to school to begin new careers."[44]

In San Jose, as in most of the rest of America, the renaissance would have to wait.

THE PEOPLE WHO RUN VISUAL ARTS ORGANIZATIONS, unlike those who run performing arts groups, don't have to worry about filling seats. They don't have to pay musicians, dancers, or actors either. But they do face chronic budget pressures every bit as tight. By the end of the 1990s, these pressures had created in the visual arts a mirror image of the performing arts.

In the visual arts, as in the performing arts, government funding support started ebbing in the 1980s and 1990s. In the visual arts, as in the performing arts, America's ever-wealthier wealthy sat, for the most part, on their checkbooks and offered no substantial relief. In the visual arts, as in the performing arts, arts groups then rushed off to the marketplace for any and all dollars they could capture.

These visual arts groups had several money-raising marketplace options. They could sell reproductions of the art that hung on their walls, for instance, and they could sell food and drink in their museums. Most lucratively of all, they could sell tickets, and that's just what they set out to do.

The art museum experience in the United States had traditionally been, in much of America, a free experience. People walked into museums the same way they walked into public libraries. They couldn't "take out" art, as they could take out books, but they could linger before an artwork, no charge, for as long as they wanted. In the last quarter of the twentieth century, this library-like era ended, almost everywhere in the United States.

In many cases, admission fees would follow directly on the heels of cutbacks in government support. In Los Angeles, after the 1978 passage of Proposition 13, America's first major statewide tax cut initiative, the Los Angeles County Museum of Art imposed its first general entrance fee. Adults would have to pay $1.50 to enter inside.[45] The fee would make an immediate impact. Within a month, attendance at the Los Angeles museum dropped 44 percent. Within a year, average daily attendance would fall from 1,400 visitors a day to 370.[46]

Still, despite these attendance losses, there would be no going back, in Los Angeles or anywhere else. Museums would either succeed in the marketplace — by selling more and more tickets, at higher and higher prices — or have to pack up their paintings. And how would museums endeavor to sell more tickets? They would follow the performing arts script. They would produce "blockbuster" shows based on "warhorse" art that had already demonstrated clear drawing power.

The script, on one level, "worked." Blockbusters — "exhibitions on Impressionism, Egyptian art, Picasso and most of all van Gogh" — did generate ticket sales.[47] In 1996, only fourteen art shows in the United States attracted more than two hundred thousand customers. That total rose to eighteen in 1997 and twenty-one in 1998. In 1999, thirty-one blockbusters drew at least two hundred thousand people.[48]

These sorts of blockbusters undeniably multiplied revenues. But they did not, in any meaningful sense, expand the audience for art. The Los Angeles County Museum of Art offered a typical example. In 1977, before entrance fees, the museum counted about half a million visitors. Not a bad figure for a metro area with 7.5 million people. By 2001, that metro area population had grown to 10 million. How many visitors stopped by the Los Angeles County Museum of Art in 2001? About half a million, the same number the museum had welcomed back in 1977.[49]

Blockbusters had not, in Los Angeles, worked any magic. Nor did they work any magic anywhere else. How could they? Museums across the country, over the course of the 1990s, had raised their entrance fees to heights that all but eliminated the casual visitor. In Los Angeles, the county museum's original $1.50 admission fee in 1978 had been hiked, by 2002, to $7.[50] But that would be a bargain compared to the $12 charged, in 2000, at the Guggenheim in New York and the Museum of Fine Arts in Boston.[51]

These fees didn't just eliminate huge swatches of the population from regular museum going. They radically changed — for the worse — the museum-going experience.

In free public museums, notes *Los Angeles Times* art critic Christopher Knight, people can experience art casually, as part of everyday life. They come, over time, to see this art as belonging to them, part of their "cultural patrimony." Stiff entrance fees have ended this sense of common ownership. We pay to see art, just as we pay for a movie, a ballgame, or any other "commercial entertainment."[52]

By century's end, America's museum directors could care less about nurturing an appreciation for humanity's common "cultural patrimony." Museum directors had become entertainers, ever on the lookout for "popular attractions geared toward drawing crowds rather than nourishing the soul."[53] These "popular attractions" would include an exhibit on the history of the sneaker — nourishment for the sole? — that appeared at San Francisco's Museum of Modern Art in the summer of 2000.[54] And these popular attractions would also include, perhaps most profitably of all, air conditioning. Pumping up the AC, the *Wall Street Journal* would report in 2001, "is helping fill galleries" across the United States.[55] To lure sweating passers by, art museums were turning thermostats down, to as low as 69 on the hottest days, and running "cool rules" ad campaigns.

"Our air conditioning," the marketing director at Kansas City's Kemper Museum of Contemporary Art, boasted to the *Journal*, "is a huge selling point for us."

BLOCKBUSTERS, WARHORSES, AND AIR CONDITIONING all helped up arts attendance in the boom years. But they brought no artistic renaissance, no greater role for the arts in American life, and no guarantee that the arts would survive to thrive in the years ahead.

Real security for the arts, analysts note, can only come from a widening of the audience for artistic excellence. And that audience, they believe, can be widened — not by blockbusters, but by education, not by air conditioning, but by a systematic effort to support teaching about and appreciation for the arts in America's schools.[56]

Educators, not surprisingly, have been making this same recommendation for years.

"Because of the role of the arts in civilization, and because of their unique ability to communicate the ideas and emotions of the human spirit," notes the national society that represents music educators, "every American student, preK through grade 12, should receive a balanced, comprehensive, sequential, and rigorous program of instruction in music and the other arts."[57]

A "balanced, comprehensive, sequential, and rigorous program of instruction" in the arts, music educators know, is just what America's public schools are *not* providing. The National Assessment for Educational Progress, the testing arm of the U.S. Department of Education, would document — and come to symbolize — this neglect in the mid 1990s.

The National Assessment for Educational Progress, or NAEP, had for years regularly tested students across the United States in reading, math, and other subjects. But not the arts. In 1996, NAEP officials finally set out to remedy that situation. They prepared broad samples of fourth, eighth, and twelfth grade students for an arts assessment. But the assessment had to be postponed when the Department of Education couldn't find the dollars to pay for it. The testing eventually did take place, the next year, but in truncated fashion. Federal Education Department officials could only find enough budget dollars to assess arts knowledge among eighth graders.[58]

The results from this limited assessment would prove valuable nonetheless. They confirmed what arts educators had long suspected: America's schools were offering students precious little contact with the arts. Only 25 percent of eighth graders, the assessment showed, were "actually singing or playing an instrument at least once a week."[59] The same percentage attended schools where visual arts classes were only offered once or twice a week. Another 17 percent attended schools where visual arts classes were *never* offered.[60]

"This NAEP assessment verifies that most American children are infrequently or never given serious instruction or performance opportunities in music, the arts, or theater," Secretary of Education Richard Riley told reporters. "That's wrong."[61]

The NAEP arts assessment, and Secretary Riley's anguished response to it, would get no rise out of America's champions of culture, those men and women of private wealth and exquisite taste who see themselves as noble protectors of humanity's fine arts heritage. These wealthy patrons of the arts, in the wake of the NAEP report, made no massive move to rescue America's young people from artistic illiteracy. These patrons of the arts simply did not have time to focus on schools and art education. They had more important work to do. They were too busy underwriting artistic monuments — to themselves.

These monuments — luxurious new concert halls and art museums, or new wings for old buildings — proliferated wildly in America's turn-of-the-century years. In 2002, *USA Today* counted "at least" sixty major arts building projects over $10 million "either underway, in planning stages or just completed." These sixty projects, by conservative estimate, together cost $5.1 billion.[62]

Not all Americans of means, to be sure, cheered this building boom. Some worried that edifices and air conditioning, in the absence of arts education, might not be enough to give the arts a fighting chance for the future. One such worried American of means, cable TV multimillionaire John Sykes, would actually move to change that future.

Sykes, midway through the 1990s, had volunteered to serve as a "principal for a day" at a public school in Brooklyn. The school's students had welcomed him with a musical show, and their energetic effort left Sykes, the president of cable television's popular VH1 music network, all smiles. But those smiles faded when a music teacher told Sykes the school couldn't afford to keep its music program going. A shocked Sykes promptly decided to "adopt the school" and outfit the kids with new instruments. His philanthropy at this single school would soon turn into a citywide program and then, in 1998, into a national philanthropic effort, the VH1 Save The Music Foundation.[63]

The Foundation's goal: to help restore instrumental music programs in America's schools and increase children's access to music education. Toward this end, Save The Music would enlist a long list of partners and sponsors, outfits of substance ranging from the National School Boards Association to Subaru.[64] By May 2002, Save The Music had donated $21 million worth of musical instruments to nine hundred public schools. In just five years, the program had touched the musical lives of four hundred thousand children.[65] By 2008, Save The Music officials noted, an estimated 1 million public schoolchildren would regain access to music education *if* Save The Music were able to raise enough donations to successfully complete its ten-year plan.[66]

But even this success, Save The Music officials understood, would be limited. At the start of the new century, only one quarter of America's schools offered music as a basic part of the curriculum.[67] If Save The Music were able to reach 1 million kids, that would still leave about 35 million more children yet to be reached.

"We've helped so many children and schools these past five years," acknowledged Bob Morrison, the Save The Music executive director, early in 2002, "but the need to restore music education programs unfortunately continues in the face of significant education budget cuts across the country."[68]

Save The Music, gallant though the effort, was not making much more than a minor dent.

IN THE 1990S, VH1 PRESIDENT JOHN SYKES HAD ONE IDEA — his Save The Music program — on how the affluent ought to go about nurturing public appreciation for the arts. Steve Wynn, the stylish, art-collecting chairman of Mirage Resorts, had another.

In 1998, amid massive fanfare, Wynn opened a "Gallery of Fine Art" inside his luxurious new Las Vegas resort hotel, the Bellagio. Over the next two years, an average of two thousand customers a day would pay $12 a head to take a peek at Wynn's $400 million worth of "paintings and sculpture by the likes of Renoir, van Gogh and Picasso."[69]

Elsewhere in Las Vegas, on and around "the Strip," Wynn's fine arts derring-do would quickly inspire a mini-boom in masterworks.

"Strip moguls recognize," noted one reporter, "that art is entertainment, just like golf or nightclub acts or gambling."[70]

In 2001, to cap off this artistic flurry, a new casino and resort known as The Venetian, an even grander palace than Wynn's Bellagio, opened an opulent art gallery all its own, after teaming up with New York's Guggenheim Museum and Russia's venerable Hermitage.[71]

"It's a great combination — high kitsch and high art at the same time," noted The Venetian's proud president, Rob Goldstein.[72]

Other observers, like Dave Hickey, a University of Nevada at Las Vegas art critic, weren't so sure. Hickey had the quaint notion that museums ought to offer a "refuge" from commerce, not opportunities for new profit centers.

"All of this is based on the presumption that art is a spectator sport, like a tractor pull," noted Hickey, after surveying the burgeoning Las Vegas fine arts scene. "You're not in the museum business anymore. You're a carnival."[73]

Some American cities, in the boom years, did try to stick to the museum business — and offer all people, not just those who could afford the price of admission, a refuge where fine art could be experienced, not just consumed. Of these cities, none would make a more admirable effort than St. Louis.

A democratic people, leaders within the St. Louis arts community believed, ought not count on the whims of the wealthy to protect and preserve the best their culture has to offer. That perspective had deep local roots. A century earlier, after the 1904 St. Louis world's fair, local citizens — "working-class European immigrants who smarted from the memories of the elitism of their homelands' cultural institutions" — had converted the fair's only permanent structure, the Palace of Fine Arts, into the St. Louis Art Museum. They carved into stone their new museum's mission — *Dedicated to Art and Free to All* — and hoped the generations ahead would never forget that motto.

Those generations never did. The St. Louis Art Museum, down through the decades, has remained free.[74] City and county local residents pay, as part of their property taxes, a "museum tax." At one point, local political leaders did propose an admission fee to pay for capital improvements. City and county residents rejected the fee. They voted, instead, to double their museum tax, "to keep the free admission policy."[75]

The St. Louis museum tax — at century's end, $220 on a home assessed at $100,000 — came to supply nearly 80 percent of the city art museum's general operating revenue.[76] That solid base of support, in turn, gave museum officials the creative freedom to think beyond warhorses and blockbusters.

"The great challenge for museums," as Brent Benjamin, the St. Louis Art Museum's director, noted in 2000, "is to build an audience for exhibitions that are not Impressionism or antiquities."[77]

The St. Louis Art Museum seemed, at century's end, to be doing a fairly good job at that. The museum, throughout the 1990s, consistently topped attendance lists for touring exhibitions, perhaps the art world's best comparative attendance measure.[78] The museum was surviving, even thriving — without depending on the wealthy.

The fine arts in St. Louis have always, to be sure, welcomed contributions from the city's most affluent, but the arts in St. Louis, more so perhaps than the arts in any other city, have never *had* to have those contributions to stay alive and thrive. The direct result? The arts in St. Louis have never been left in the lurch when the priorities of the privileged didn't quite match up with the needs of arts organizations. The arts in St. Louis have never had to rush wildly into the marketplace to make up for the dollars the wealthy have not seen fit to throw their way.

Elsewhere in America, arts community leaders have, for the most part, never stopped counting on the wealthy. They have been systematically disappointed. Amid that disappointment, they have turned to the marketplace — and only compounded their problems. Arts leaders have ended up shrinking the public for fine art and giving this shrunken public an arts experience that is decidedly less than fine.

The "accumulation of wealth," President Calvin Coolidge, a dependable friend of wealthy people, once declared, inevitably brings forth a "widening of culture."[79]

Not necessarily.

Not if that accumulated wealth sits concentrated, at the top.

A CASE NOT MADE

WE HAVE, IN THE PAGES just concluded, examined the classic claims made on behalf of concentrated wealth.

Societies that welcome great fortunes, the case for concentrated wealth asserts, give their most deserving individuals the incentives they need to refine their talents and work harder, longer, and smarter than they otherwise would. And societies that richly reward their deserving are, in turn, themselves rewarded — with prosperity, charity, and beauty.

Civilized societies, in sum, need great wealth. The wealthy deserve their wealth. The rest of us all benefit from it.

A simple story. A comforting story.

As comforting as any fairytale.

Fairytales, unfortunately, do not reveal reality. They obscure it. Those of us who go about living as if life were a fairytale will always inevitably be disappointed. Life cannot deliver what fairytales promise.

Over the past quarter-century, the fairytale spun by the fortunate has not delivered. Aiding and abetting wealth concentration has not energized genius, rewarded the worthy, or left those of us unworthy of great fortune any better off. We have not benefited from increasing inequality. We have not come to live in a more secure, compassionate, or lovely land.

But we cannot and should not attempt to judge concentrated wealth — or any social phenomenon, for that matter — on the basis of "deliverables" alone. To appropriately analyze any human endeavor, as America's schools of business have taught us, we need to look at costs, not just benefits.

In modern life, we perform "cost-benefit" analyses all the time, in everything from our businesses to our debates over public policy. "Costs" and "benefits," we understand, must each be evaluated before we reach any final judgments on any endeavor's ultimate value.

An endeavor that delivers all its promised *benefits*, after all, could quite rightfully be declared a dismal failure if the *costs* incurred to make that delivery have proven outrageously monumental. By the same token, an endeavor that doesn't, at first, deliver on its promises might still be worth continuing — if that endeavor exacts no appreciable cost. Change sometimes does take considerable time. With more time, a suspect endeavor might eventually deliver.

America's growing inequality has not yet, we have seen, delivered. How should we react? Should we sit back and give inequality more time to produce the benefits so far denied us? Or should we take steps — now — to roll back inequality and start anew.

Hold that question, a freshly minted MBA might suggest. We have yet to examine the "cost" side of America's social ledger. Great fortunes may not, at least so far, have benefited us. But what have they actually *cost* us?

Good point. We need to answer our MBA's question.