March, 2002 Responsible Wealth • A Project of United for a Fair Economy Vol. 6, No.1

RESPONSIBLE WEALTH **Action News**

Responsible Wealth believes that growing economic inequality in America has resulted from rules tilted in our favor as large asset owners. We examine these tilted rules and use our unique voice to propose changes that will lead to a more fair economy and democratic society.

Public Opinion Favors Delaying Tax Cuts

81% of Americans are opposed to keeping the tax cuts scheduled for 2004 and 2006 if the money comes out of Social Security.

84% oppose keeping the Bush tax cuts if they cause an increase in the national debt.

54% favor cancelling the tax cuts for families making over $130,000. (Democracy Corps National Poll)

71% favor rolling back the tax cut to provide more money for prescription drugs for seniors. (Zogby Poll)

Inside

'Now, more than ever..." Take the Tax Fairness Pledge

Have you noticed how many advertisements since September 11 include the phrase "Now, more than ever…" Well, we think that phrase applies particularly well to this year's Tax Fairness Pledge.

We believe it's more important than ever for business leaders and wealthy individuals to reject the recent tax cuts that are so unfairly tilted toward the wealthy. The Tax Fairness Pledge is a great way to do that.

Just as last year's "Call to Preserve the Estate Tax," signed by over 1,000 wealthy individuals, turned heads and changed the debate about repealing the estate tax, we know that the voice of upper tier taxpayers rejecting their tax breaks during this time of national sacrifice will turn heads and help support efforts to roll back the tax cuts for the wealthy.

At a time when many in the nation are sacrificing or suffering (police, firefighters, military personnel and laid off workers, to name a few), and

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DAN WASSERMAN

Responsible Wealth Action News

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Responsible Wealth
A Project of
United for a Fair Economy

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Responsible Wealth, a project of United for a Fair Economy, is a group of business people, investors and affluent individuals among the top 5% of income earners and asset holders in the US (over $145,000 annual household income and/or $650,000 net assets) who are concerned about growing economic inequality and are joining together to publicly address the problem.

As beneficiaries of economic policies that are tilted in our favor, we feel a responsibility to speak out and change the system to benefit the common good. We believe it is in our own best interest to do so.

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Tax Fairness Pledge *(cont'd)*

when a budget deficit is forcing harsh cuts to social services, health care, and education, we believe it is unconscionable for our government to be doling out tax breaks to the wealthiest among us.

We hope you'll join with other wealthy individuals in "putting your money where your politics are" and taking the Tax Fairness Pledge (enclosed).

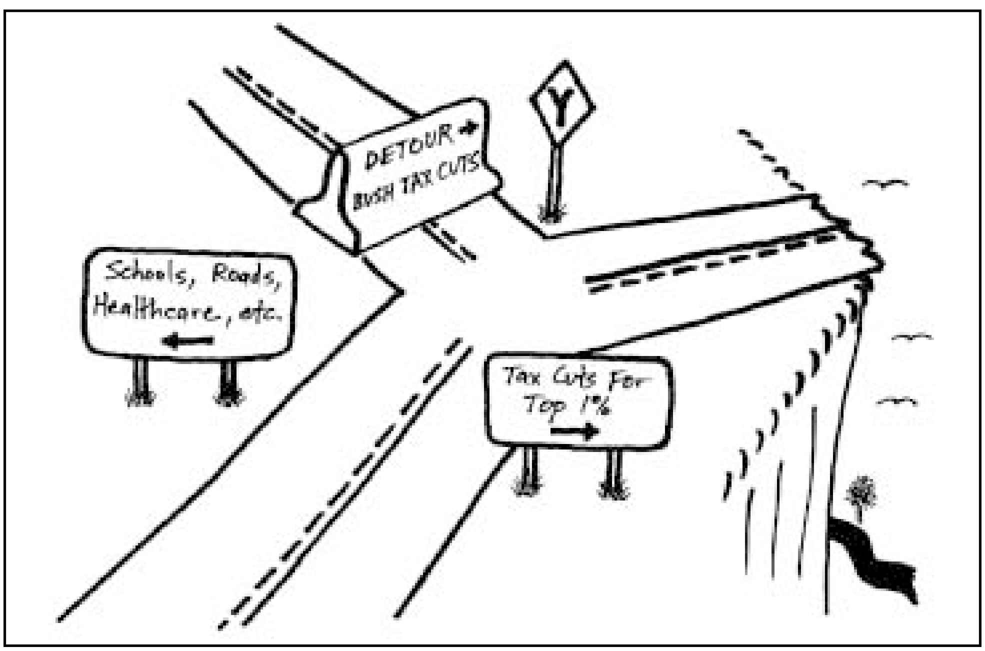
The Pledge is a simple but powerful statement that you are refusing to accept the cut to the top tax rate passed in 2001 and/or the capital gains tax cut passed in 1997.

The Pledge is a simple but powerful statement that you are refusing to accept the cut to the top tax rate passed in 2001 and/or the capital gains tax cut passed in 1997. Since its inception in 1998, over 200 individuals have taken the Tax Fairness Pledge and given away over $3.7 million of their tax cuts.

The man-bites-dog nature of this action has attracted swarms of media attention, including a live national TV interview, to an issue that was otherwise well off the public radar screen.

We will use this year's Pledge to bring attention to the need to freeze last year's tax cuts for the wealthy, including the top tax rate and the declining estate tax rate. With some in Congress already attempting to accelerate or make permanent those tax cuts, it's "more important than ever" to have a voice like Responsible Wealth's on the other side of the debate. In fact, without the RW's voice, there might not be another side of the debate!

Please take 5 minutes today to fill out the enclosed "1040RW" form and mail or fax it back to us. Your action, together with many others, will make a difference! We thank you in advance for participating.



MIKE LAPHAM

Using Our Voices

How Are You Using <u>Your</u> Voice?

(Excerpts from letters and speeches by RW Members)

"We shareholders are major players in holding corporations accountable, because it is clear that our politicians will not."

—Harriet Denison, in *Foundation News and Commentary*, Jan/Feb 2001

"Good morning. My name is Marnie Thompson and I am a member of Responsible Wealth...

This resolution asks for the company to re-examine its executive compensation policies...Disney's top five officers...control more than 15% of outstanding stock options...Mr. Eisner [alone] controls more than 11% of oustanding stock options.

...Two years ago at Disney's annual meeting, Responsible Wealth member Michele McGeoy engaged Mr. Eisner in a discussion about the merits of employee ownership. Mr. Eisner queried Ms. McGeoy over whether parking lot attendants should be offered stock options.

Our answer then and now is "Yes, we believe that all employees should be granted a stake in the company, especially those employees who are in front line customer contact positions, men and women like parking lot attendants." Numerous academic studies point to the positive effects that broad-based employee ownership has on everything from revenue growth to quality improvement....We urge Disney's board to share the wealth-creating possibilities with all those who contributed to the creation of that wealth."

—Speech of Marnie Thompson at Disney Annual Meeting, Feb. 19, 2002

"...Last fall, Senator Boxer voted not to repeal the estate tax. Senator Feinstein voted with the Republican majority to repeal the tax. It is my belief that our estate tax, if it is changed at all, should be modified to further protect small businesses and small farms. It should not be eliminated so that people like the heirs of Bill Gates receive huge tax windfalls. I encourage you to call Senator Feinstein today. Ask her to modify the estate tax legislation but not eliminate it."

—Barry Hermanson, in a letter to fellow business people in the Bay Area

"Dear Senator Smith:

I am writing this letter to express my concern over proposals to...eliminate the estate tax. As a high net worth individual, I stand to benefit personally from such legislation yet it is very disconcerting to find bipartisan support for doing away with such a progressive and equitable tax.

...the federal government stands to lose a huge source of revenue ($27B in 2000 and in excess of a half a trillion dollars over the next two decades). These funds will no longer be available to pay for vital programs or will have to be obtained [from taxes] that are sure to be less progressive and more burdensome to the average taxpayer.

...I would like to enlist your support for retaining the estate tax. A tax that serves as an important source of revenues and rightly asks America's wealthiest citizens to pay their fair share."

—Mark R. Kalenscher, Portland, Oregon

Take Action

Write a letter to your local paper or your members of Congress calling for the top bracket tax cuts passed last year to be delayed or rescinded, given the current and projected budget deficits.

If applicable, identify yourself as a person who stands to benefit from the cuts.

Shareholder Activism

The Many Lessons of the Enron Meltdown

There is a spin battle being waged between the White House and Wall Street over the broader meaning of the Enron scandal. Washington would like us to believe that Enron was an isolated problem caused by a corrupt management team. Wall Street is not so sure. Volatile markets reflect a concern that Enron-like problems may be lurking inside other companies.

Media coverage of the Enron debacle portrays a sordid tale of illegal activity. The untold story is that many of the shocking practices at Enron were perfectly legal. Many other corporations have business practices and accounting schemes that closely resemble Enron's.

For the last four years, Responsible Wealth members have filed shareholder resolutions aimed at changing some of these unconscionable corporate practices.

Cozy Boards

Enron is not unique in having a Board made up largely of directors who have strong personal ties to the CEO. Given the Board's responsibility to govern the corporation and hold the CEO accountable, these personal relationships get in the way of good corporate governance.

Responsible Wealth members have filed two shareholder resolutions dealing directly with corporate governance matters. In the wake of Enron, General Electric's accounting practices have made many on Wall Street nervous because GE's aggressive accounting practices have never been well understood by financial analysts.

Though the vast majority of large companies have moved to Boards made up of a majority of independent, outside directors, the majority of General Electric's Board are company insiders. This is troublesome, particularly in matters of setting CEO pay, where those who report to the CEO have a strong role in setting the pay of their boss. Responsible Wealth has sponsored a shareholder proposal this year asking General Electric to adopt a governance standard of Board independence.

Responsible Wealth members have also filed a resolution with Exxon Mobil calling upon the company to have competitive Board elections and to include nominees from diverse experiential backgrounds among the additional director candidates. Exxon Mobil's Board is overwhelmingly comprised of company insiders and current and retired CEOs. Our resolution argues that the company's Board lacks adequate representation to effectively address issues ranging from executive pay to corporate social responsibility.

A Busy Spring Ahead

In addition to these corporate governance resolutions, Responsible Wealth members have filed proposals with three firms in the sub-prime lending industry: Citigroup, Household International and Countrywide Credit. These resolutions ask the companies to link a portion of their CEO pay to success in eliminating predatory lending practices. We do not believe

(continued on next page)

Shareholder Workshop and Disney Meeting

As Responsible Wealth member Marnie Thompson completed her speech asking The Walt Disney Company to spread stock options more equitably throughout the company, most of the 2,800 shareholders at the annual meeting broke into wild applause. Seeking to restore order, Disney Chairman Michael Eisner tried to speak, uttering the single word, "This," before the applause grew even louder. Eisner completed his sentence by adding, ". . . is a very popular resolution."

The day before the Disney meeting, fifteen RW members joined for a day-long workshop on shareholder activism. Combining education with action, the RW members then attended the annual meeting.

Four shareholder proposals were presented following a 90-minute management presentation in which the words revenue, earnings, and growth rate were never mentioned, even though Disney lost money last year.

Shareholder Activism

Enron *(continued from page 4)*

that well-paid executives should be rewarded for profits derived from taking advantage of low-income people, the elderly and communities of color who have often been victims of predatory lending practices.

Much attention has been given to Enron's executives freezing employees' ability to sell their 401(k) stock while the executives themselves freely sold their stock. Enron is not the only company where executives have exempted themselves from pension changes that hurt large numbers of employees. AT&T management unilaterally changed the company's pension plan in such a manner as to reduce the expected pensions of veteran employees by up to 30%. Executives have their own pension plan and are not affected by these changes. Responsible Wealth members have joined with Domini Social Investments in filing a shareholder resolution asking that all employees be given a choice between the old pension plan and the newly imposed one.

RW members have also filed a proposal with FleetBoston Financial asking the company to link CEO pay to employee and customer satisfaction, and another with EMC Corporation asking the company to affirm its commitment to hold in-person annual meetings. EMC led an effort in Massachusetts to allow companies holding an internet-based annual meeting to eliminate their in-person annual meeting. That effort was fought back by a coalition of RW members and other local organizations.

A resolution asking AOL Time Warner to freeze their executive pay in the face of downsizing was withdrawn following a dialogue in which the company provided assurances that our concerns would be reflected in the executive pay figures released in the proxy statement.

Take Action

Find out how your shares are voted: ask your money manager, mutual fund, pension fund, religious denomination, university, or other institution how they voted the stock you own.

RW's 2001-2002 Shareholder Resolutions

Responsible Wealth submitted a total of ten resolutions in 2001-2002 in the eight categories below.

1. **Freeze CEO Pay During Periods of Downsizing**

   AOL Time Warner (withdrawn after negotiations)

2. **Link CEO Pay to Customer/Employee Satisfaction**

   FleetBoston Financial

3. **Link CEO Pay to Reducing Predatory Lending**

   Citigroup
   Countrywide Credit
   Household International

4. **Limit the Concentration of Stock Options**

   Walt Disney (received 6.9% of votes)

5. **Create an Independent Board of Directors**

   General Electric

6. **Hold Competitive Board Elections**

   Exxon Mobil

7. **Hold In-Person Annual Meetings (i.e., not Internet only)**

   EMC

8. **Assure Pension Equity for All Employees**

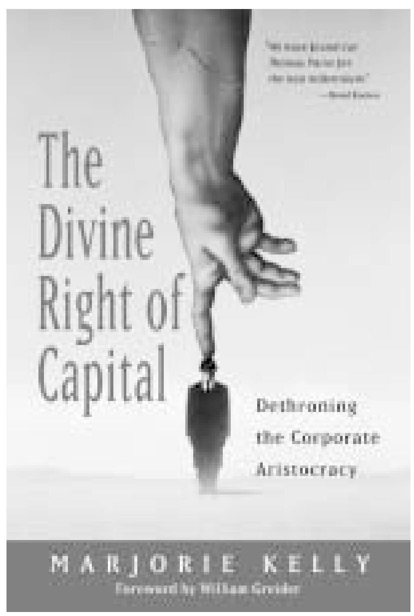
   AT&T

Book Review: The Divine Right of Capital

The Divine Right of Capital, by Marjorie Kelly, ©2001, Barrett-Koehler. Reviewed by Scott Klinger.

The United States has succeeded, at least in theory, in throwing off the political vestiges of aristocracy. The right to vote is no longer routinely denied based on gender, race or whether one is a landowner. When these rights are impinged, a significant segment of the population cries foul.

There is no such cry when it comes to economic aristocracy, which author Marjorie Kelly claims is alive and well and thriving in American capitalism. In her new book, *The Divine Right of Capital*, Kelly argues that the privilege of investors tramples the rights of other stakeholders, such as employees, communities and the environment.



"The custom of investor primacy once permitted piracy – as seafaring vessels [often financed by the royalty of their country] were legally permitted to attack other ships and seize their cargo. Things are little different today, as corporations loot pension funds, degrade public resources and demand corporate welfare."

—Marjorie Kelly, in **The Divine Right of Capital**

Through a series of simple algebraic calculations, Kelly, the publisher of *Business Ethics* magazine, shows that corporations could as easily be set up to maximize the return to labor as they are currently set up to maximize shareholder return. That is, if the power of capital did not continue to control the equation. "Corporations," Kelly notes, "function with an aristocratic governance structure, where members of the propertied class alone may vote."

The *Divine Right of Capital* will provoke you as it turns conventional economic thinking on its head. Into a society that warmly embraces capital as the engine behind wealth creation, Kelly fires a revolutionary volley: "It is inaccurate even to speak of shareholders as investors, for more truthfully they are extractors. When we buy stock, we are not contributing capital, we are buying the right to extract wealth." The unchallenged alchemy of capitalism transforms all forms of capital – human capital, social capital and natural capital – into financial capital, which can be extracted, bought and sold.

Kelly's thesis is that "corporations today are governments of the propertied class, exercising power over Americans that is greater than the power once exercised by kings. They are governments that have become destructive of our inalienable rights as a people."

Her answers to this unfettered power closely mirror the solutions put forth by Responsible Wealth: giving those who create the wealth a real voice in governance and larger share of the profits, and restoring the importance of corporations contributing to the community as taxpayers.

Book Review: Fuzzy Math, by Paul Krugman

Fuzzy Math, by Paul Krugman ©2001, W.W. Norton & Co. Reviewed by Mike Lapham.

If you're like us, Fuzzy Math is the kind of book you always hope for, but rarely find. In nine short chapters, and only 129 pages, Paul Krugman, a regular columnist for the New York Times, dissects the Bush tax cuts of 2001 and gives us his analysis of what's wrong with them in plain language.

Fuzzy Math hit the shelves in the spring of 2001, before the tax package was passed. However, it remains a very useful exposé of how the tax cuts were sold to the public, how a number of false and irresponsible assumptions undergirded their passage, who benefits from the cuts, and what we could have done instead. Part civics lesson, part budget primer, and part searing critique of Bush and his fellow tax cut proponents, the book is as enjoyable to read as it is informative.

Less than a year after the tax cuts were signed into law, the country has been in a recession, federal revenues are down, the projected surplus is gone, and federal programs are already being slashed to pay for last year's tax cuts.

Over the coming months and years, the wisdom, justice and affordability of the Bush tax cuts will be debated over and over. You owe it to yourself to spend a few hours with this book to better understand why we made this costly mistake and what effect it will have if not undone.

"Serious enthusiasts for tax cuts see high taxes as the root of all economic evil, and maybe of all evil, period....And if high taxes are the root of all evil, tax cuts are the magic elixir, one that will make sick economies healthy and make healthy economies prosper all the more. Tax cut proponents are nothing if not consistent. During the campaign George W. Bush was asked whether there were any circumstances under which he might reconsider his tax cut proposal – for example, what if growth were to slow and the surpluses he proposed to return to taxpayers were to disappear? In that case, he declared, we should cut taxes anyway, to stimulate the economy."

—Paul Krugman, *Fuzzy Math*, p. 23.

www.RecoveryWatchdog.org

Immediately following the September 11 terrorist attacks, the halls of Congress were awash in lobbyists trying to cash in on the tragedy to push through tax breaks and other legislation that they hadn't previously been able to pass.

In response to this feeding frenzy, Responsible Wealth's parent organization, United for a Fair Economy, launched a new website dedicated to analyzing these proposals (e.g., drilling in the Arctic Wildlife Refuge). The site — www.recoverywatchdog.org — includes a review of the recently passed stimulus bill, a proposal for an alternative airline bailout bill, links to a variety of related articles, and an interactive feature that allows visitors to design their own $100 billion stimulus plan.

More Get Rich and Pay Less in Taxes

The following excerpts are taken from an article by David Cay Johnston entitled "More Get Rich and Pay Less Taxes." The article appeared in the New York Times on February 7, 2002:

"The number of Americans with million-dollar incomes more than doubled from 1995 to 1999. The percentage of their income that went to federal income taxes, however, fell by 11 percent...

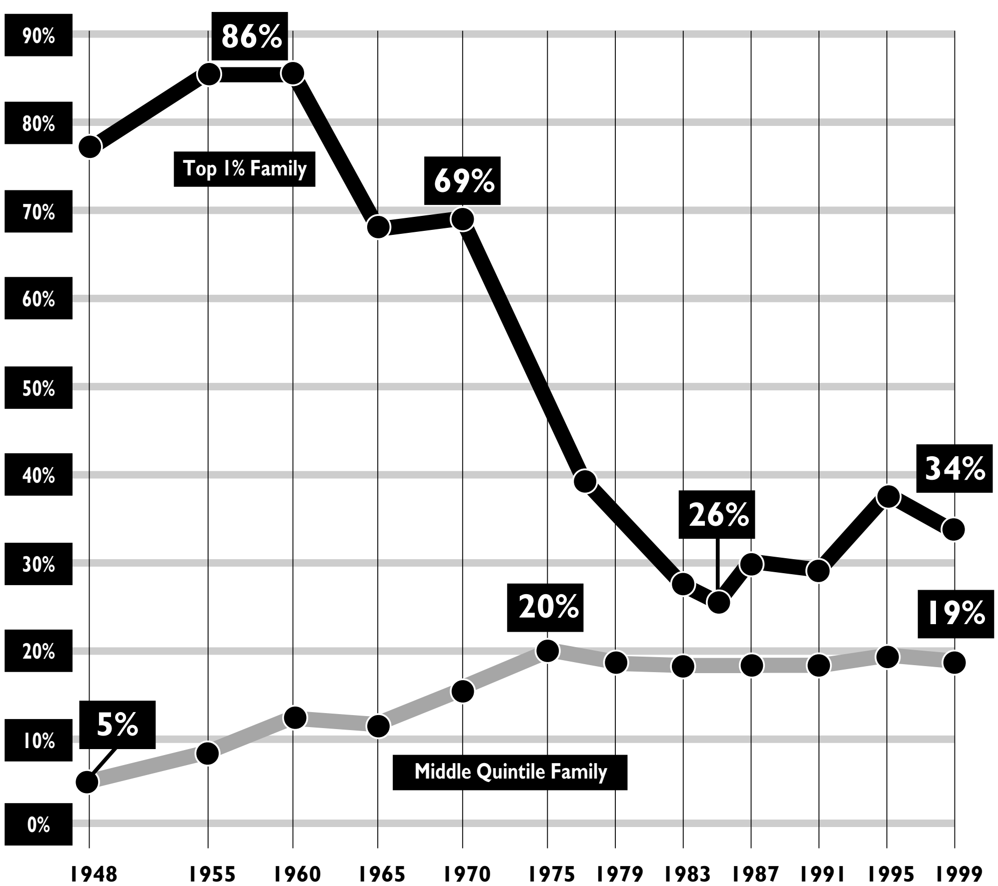
"The wealthiest Americans paid a smaller share of their income in taxes because in 1997 Congress reduced taxes on capital gains, which account for a significant share of their income...

"For those with million-dollar incomes, the share of their income that went to taxes fell to 27.9 percent in 1999, from 31.4 percent in 1995...

"For those who did not make a million dollars, the portion of their income going to taxes edged up in those years, to 12.8 percent from 12.5 percent...

"The capital gains tax cut of 1997 appeared to favor the 400 richest taxpayers most of all. Harvesting 7 percent of all capital gains in 1998, these very rich Americans paid just 22 percent of their incomes in taxes that year, down from 30 percent in 1994."

Effective federal tax rates (income tax + payroll tax) for the top 1% and the middle quintile of families, 1948-99.



Sources: Top 1%: 1948-70: Kevin Phillips, *Boiling Point* (Random House: 1993) p. 110, citing *Statistical History of the United States,* (U.S. Government Printing Office: 1976) p. 1112; 1977-99: Congressional Budget Office, "Preliminary Estimates of Effective Tax Rates," Sept. 7, 1999.

Middle Quintile Family: 1948: Phillips (1993) p. 110, citing *Statistical History of the United States* (1976), p. 1112, figure is for median family; 1955-75: Phillips (1993) p. 110, citing Alan Lerman, U.S. Department of the Treasury Office of Tax Analysis, figures are for median family; 1977-99: Congressional Budget

The chart at left is from United for a Fair Economy's popular education workshop "The Growing Divide: Economic Inequality and the Roots of Economic Security."