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DISPARITY IN INCOMES GROWS

In our attempt to understand how the current economic crisis is affecting different groups, we need to look closely at how earnings are distributed and at the impact of the 1981 tax cuts. In this issue, we will look at the earnings received by top management and labor leaders; next month, we will look at the earnings of nonsupervisory workers.

More for Management

Business Week's Annual Compensation Scoreboard for 1981 shows that top management made gains both in compensation and tax breaks. Last year total compensation of top officers at the 288 large corporations surveyed rose an average of 15.9%, or 5.5% above the 10.4% annual increase in the cost of living. In contrast, the average weekly earnings of all nonsupervisory workers (not including agriculture) rose only 8.5% last year.

More importantly, the Economic Recovery Act of 1981 included tax decreases that translate into large sums of money for most executives. First, the maximum tax rate on earned income was decreased from 70% to 50%. This means that the progressive nature of the personal income tax, which is supposed to insure that people are taxed according to their ability to pay, has been reduced. Such a step is in line with Treasury Secretary Regan's statement that "the progressive income tax is immoral."

Secondly, the 1981 tax act also introduced the "incentive stock option" or ISO. This device resurrected the formerly outlawed "qualified stock option," and added changes to make it even more lucrative. Now an executive exercising an ISO does not pay any income tax on such compensation until he sells the ISO shares; then the first \$100,000 of his gain is taxed at the low capital gains rate of 20%.

The ISO, which Business Week called a "gift" from Congress, will increase the top wealth holdings in the U.S. by making it easier for executives (as opposed to companies) to amass enormous holdings through the exercise of stock options. For example, Roland Genin of Schlumberger received \$5.2 million from stock options in 1981 (in addition to his salary plus bonus of \$438,000.) Last year, at least fifteen executives received over one million dollars from exercising stock options.

Austerity for Labor

Business Week's survey of the salaries of union leaders showed that their salary increases were considerably lower than management's increases: one-third of the 70 union leaders surveyed received increases above 10% and one-half received increases below 8%. In 1981, the average salary of these top labor leaders was \$76,000, or 77% above the average of a decade earlier. This is below the 100% increase for rank-and-file workers in the 1971-1981 decade. Both groups lagged behind the 125% increase in the cost of living during the same decade.

A comparison of the compensation of selected chief executive officers and union leaders by industry shows that management receives compensation equal to many times the typical pay of labor leaders. For the examples shown, the chief executive's income was from 3 to 20 times the top labor leader's income. In addition to money earnings, most executives received many tax-free "perks" (noncash fringe benefits) including memberships at country clubs, vacation homes, and chauffeured cars. Also, both labor leaders and executives have expense allowances that are not included here.

Although the question of how much management should receive relative to its workforce is controversial, the vast inequity experienced in the U.S. cannot be justified on grounds of performance. In Japan, pay differences between management and workers are much smaller than in the U.S.

BERKELEY, CA 94720
(415) 642-0323

UNIVERSITY OF CALIFORNIA, BERKELEY

CENTER FOR LABOR RESEARCH AND EDUCATION
INSTITUTE OF INDUSTRIAL RELATIONS



Comparison of Management and Union Salaries (\$ 000s)

Labor Leader's Salary		Chief Executive Officer's Salary Plus Bonus		Executive's Income Compared to Labor's
Auto Workers	\$ 71	Ford	\$440	6.2
Carpenters	89	Jim Walters	251	2.8
Clothing and Textile	53	Burlington	548	10.3
Communications	65	AT&T	889	13.7
IBEW	98	G.E.	825	8.4
IUE	65	General Instrument	624	9.6
Hotel & Restaurant	100	Holiday Inn	391	3.9
Machinists	80	Boeing	751	9.4
OCAW	50	Exxon	992	19.8
Retail & Wholesale	64	J.C. Penny	635	13.0
Service Employees	97	Hospital Corporation	400	4.1
Steel Workers	87	U.S. Steel	784	9.0
Teamsters	162	Consolidated Freightways	490	3.0
United Food & Commercial	121	Safeway	375	3.1

Pay policies differ among unions. At one extreme, the highest-paid union leader is Harold Friedman, who was paid \$195,000 as a Teamster official (Local 507) and \$233,803 as a Bakery, Confectionery and Tobacco Workers official (Local 19). At least ten top Teamster officials receive paychecks from four or more jobs, and their combined paychecks resemble those of management.

At the other extreme, the United Electrical Workers pays its President the \$22,032 earned by UE's highest-paid rank-and-file member. Although this form of earnings equality is rare, many unions are sharing the hard times being experienced by their rank-and-file. For example, Fraser and the other officers of the United Auto Workers are taking the same pay cuts that were negotiated for the rank-and-file at Ford and General Motors.

The disparity in incomes between management and labor leaders is increasing both because of the widening differentials in pay and because of the changes in the 1981 tax laws that favor high salaries and stock option plans. At the same time, the disparity in earnings among workers is growing. We will look at this in the next issue.

- Clair Brown

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