

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.

In this mailing:

Please take a few moments to complete the enclosed **shareholder survey**.

Last year, we had a record number of responses, which helped us file our shareholder resolutions.

Coming soon...

Keep an eye out for your annual **membership renewal**, which should arrive in early October.

Also, stay tuned for details on an **Estate Tax Lobby Day** in Washington, DC in **February or March, 2004**.

Inside

- 3 Federal Housing Subsidies

- 4 The State of the Estate Tax

- 5 Parents Protest Tax Cuts

- 6 Proposals on CEO Pay Dominate Annual Meetings

- 7 The Rich Get Richer

- 8 RW Members Use Their Voices

I Didn't Do It Alone: Nick Szabo, Cupertino, CA

Editors' Note: Responsible Wealth is embarking on a project to collect the stories of individuals who credit factors beyond their own hard work and individual genius in the creation of their financial success. We believe such stories will be a powerful antidote to the pervasive social view that the rich have grown wealthy "on their own," without help from others. These stories will be available on our website and in an upcoming report, "I Didn't Do It Alone."

Like a cat with nine lives, Responsible Wealth member Nick Szabo's life has been repeatedly graced with opportunity borne out of near tragedy.

Born in 1930, Szabo grew up in Hungary. Szabo's father, who lost his parents at age ten, grew up in an orphanage, but became a leading Hungarian industrialist. Szabo's mother was the first woman to receive a doctorate in mathematics in Hungary. "We were quite well off, certainly by Hungarian standards," Szabo recalls of his early life. But that changed quickly following the Russian occupation of Hungary in 1944. Szabo credits his father for getting his family out of Hungary one by one in the years following the Soviet invasion. "I was the son of a successful capitalist. I could have been killed," Nick remembers. In fact, after his successful escape, the Hungarian government tried his father in absentia and sentenced him to life in prison.

With most of his family resettled in Argentina, Nick arrived alone at age 19 in America to pursue a college education. Nick says of his arrival in America: "It was merely by chance that I ended up in California. I was accepted at both Cal Tech and MIT. While traveling in Switzerland, I met an American who was plan-



*Responsible Wealth member
Nick Szabo*

(continued on page 2)

Responsible Wealth Action News

Vol. 7, No. 2
September, 2003

Responsible Wealth
A Project of
United for a Fair Economy

UFE Executive Director
Meizhu Lui

Responsible Wealth Staff
Scott Klinger
Mike Lapham

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 \$164,000 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 also in our own best interest to do so.



Responsible Wealth
c/o United for a Fair Economy
37 Temple Place
2nd Floor
Boston, MA 02111

Phone: (617) 423-2148
(Scott Klinger x22; Mike Lapham x12)
Fax: (617) 423-0191

Email:
info@responsiblewealth.org
www.responsiblewealth.org

Nick Szabo (cont'd)

ning to enroll at Cal Tech. I decided I might as well have a friend, so I headed off to California.”

“I came here on a student visa, but when my passport expired, I became an illegal alien and was ordered deported.” Szabo was aided by Cal Tech President Dr. Lee DuBridges, who advocated for Nick’s citizenship, arguing that the U.S. needed engineers with Nick’s training. In 1955, Szabo moved directly from facing deportation to citizenship, one of the few immigrants to do so without first becoming a permanent resident.

With his U.S. citizenship in hand, Szabo continued his education, attending graduate school on the GI Bill and receiving his doctorate at the state-funded University of California at Berkeley. Upon graduation, he began working in the nascent Silicon Valley, which Szabo calls “a creation of the taxpayer.” Working in the defense electronics industry, sustained by government contracts, Szabo was employed first by Lockheed, then by the Link Division of Singer before finishing his career as an executive of KLA, a leading producer of semiconductor manufacturing equipment.

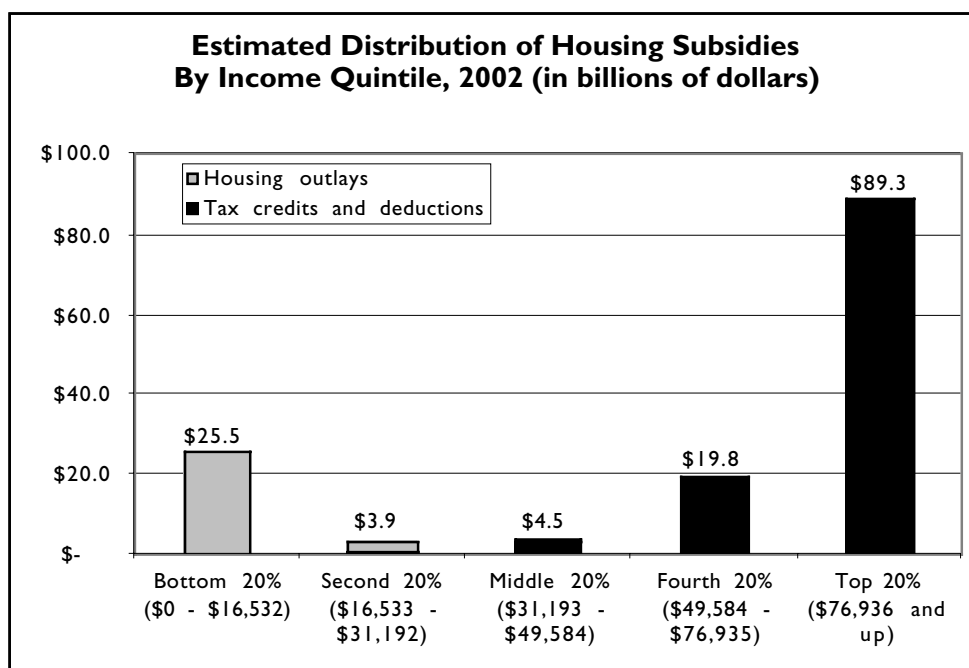
In 1969, Nick survived an airline crash. “The man on my left was killed and I was seriously injured” Nick explains. Opportunity in the face of tragedy once again graced Szabo. “I collected \$22,000 for my injuries from the accident and invested it as a down payment in real estate. My wife and I made a profit of over \$1

million from this investment.” In 1969, Szabo and his wife Marcia also purchased the home in which they still live, which has increased in value 25-fold since that time. Despite the meteoric rise in property value, Nick notes with disdain that “because of Proposition 13, the property taxes are less than they were in 1978.”

Aware of the importance of government investment in the creation of Silicon Valley and in his own success, Szabo felt a responsibility to give something back. He became active in his community, moving from leadership of his neighborhood association to a seat on his town’s planning commission, to City Councilman and eventually to Mayor of Cupertino. Nick continues to advocate for progressive tax policies, including preservation of the estate tax and reform of California’s dysfunctional property tax system.

When asked how much of his wealth was derived from his own hard work and ingenuity, Szabo laughs and says, “about 10%.” He credits his father’s wisdom in getting him safely out of Hungary, Dr. DuBridges’ support in gaining his citizenship, his luck in surviving the tragedy of an airplane crash, and the happenstance of his living in and investing in California as Silicon Valley came of age as factors in his financial success. “Choosing the right parents, being in the right place at the right time, and having the support of the government in my education and subsequent work played the biggest roles in my success,” Szabo concludes.

A Picture's Worth a Thousand Words: Federal Housing Subsidies



SOURCE: NATIONAL LOW-INCOME HOUSING COALITION

Last year, the federal government spent \$143 billion on housing subsidies. Less than 18% of these expenditures benefited the poorest 20% of Americans. More than 62% of these expenditures benefited the richest 20% of Americans.

The home mortgage interest deduction is the nation's largest housing subsidy, reducing federal income tax collections by \$64 billion in 2002. Households in the top fifth of income distribution received 78% of housing related tax deductions (deductions for home mortgage interest, property taxes, preferential capital gains taxes and tax credits for housing investors) in 2002.

Though taken for granted by most taxpayers, these tax-saving opportunities are

one of many tax laws that grant benefits to those who already own assets, while excluding those who cannot afford home ownership.

Since 1976, the federal government has halved the portion of the budget devoted to low income housing assistance from \$55.6 billion to \$27.5 billion in 2002 (both in inflation-adjusted 2002 dollars), according to *Changing Priorities: The Federal Budget and Housing Assistance 1976-2002*, published by the National Low Income Housing Coalition (www.nlihc.org). Over the same period, the revenue lost from the home mortgage interest deduction more than quadrupled, to \$64 billion in 2002 (also in inflation-adjusted dollars).

The State of the Estate Tax

United for a Fair Economy and RW Continue to Organize

What's up with the estate tax?

The U.S. House voted for repeal again this Spring, but the Senate still lacks the 60 votes needed for complete repeal. In the meantime, Republicans are making the estate tax an issue in as many Senate races as possible.

What Actions are United for a Fair Economy and Responsible Wealth Taking on the Estate Tax?

In response to over 10 years of fundraising and lobbying by pro-repeal groups, United for a Fair Economy and Responsible Wealth have developed a multi-year organizing and advocacy plan of our own, working closely with the Americans for a Fair Estate Tax and Fair Taxes for All coalitions.

We have also created a non-exempt 501(c)(4) entity, the Fair Economy Action Fund, which can accept donations for lobbying, advertising and other advocacy activities. During August, the Fair Economy Action Fund generated 2,659 calls to six swing legislators on the estate tax. Below is a brief summary of our current

work on the estate tax.

We monitor press coverage on the estate tax each day and develop rapid response op-eds and letters to the editor in response to pro-repeal media. We are also

working with the National Farmers Union to amplify their opposition to repeal in rural media and broader outlets.

Through our promotion of *Wealth and Our Commonwealth* (co-authored by Bill Gates, Sr. and Chuck Collins, Beacon Press, 2003), we have created forums to bring together prominent business leaders, and other allies in each of our key states.

Organizers employed by the Fair Economy Action Fund are currently working in Maine, Louisiana, Arkansas, Oregon, Minnesota and Washington. We plan to add organizers in Ohio and Indiana this winter.

Fall 2003 Calendar of Activities

Late September – State-by-state release of a joint UFE/National Priorities Project study entitled “The Trillion Dollar Trade-Off,” which looks at the long-term impact of estate tax repeal on state budgets.

October – State-by-state release of a study by OMB Watch on the impact of repeal on charity, with press events in target states featuring a national expert, local charities, non-profits and business leaders.

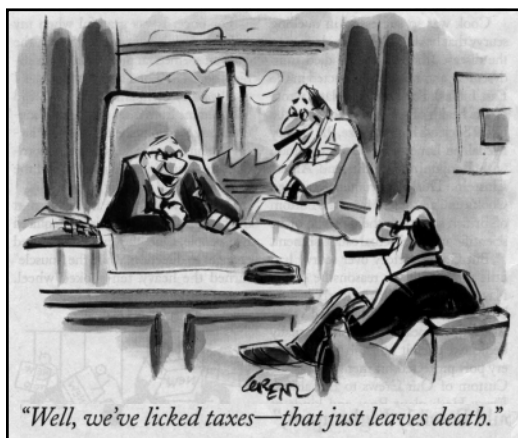
October/November, 2003 – Washington, DC lobby days with National Farmers Union and RW members.

October-December, 2003 – Gates/Collins book/media/public events:

October 22-23– Minneapolis, MN.

November 17-18 – Chicago, IL.

December 9-10 – New Orleans and Baton Rouge, LA.



Parents Protest Tax Cuts

Since its founding, Responsible Wealth members have put their money where their mouths are by giving away their tax breaks as an act of political protest. Hundreds of Responsible Wealth members have taken the annual Tax Fairness Pledge, redistributing more than \$2 million of their tax cuts to local community service organizations and groups working for greater tax fairness.

In 2001, thousands of Americans across the economic spectrum joined United for a Fair Economy's Reject the Rebate campaign, and contributed their \$400 rebate checks to groups working for a fairer economy.

Again this summer, the IRS was busy handing out child care tax credit rebate checks to moderate income parents – the working poor were left out, along with upper income Americans. Hundreds of Americans joined United for a Fair Economy's call to "Really Leave No Child Behind" and donated their checks to local service agencies hurt by government tax cuts.

Here are some comments from those who participated:

"This rebate is a smokescreen to hide the truth that most of the 2003 tax cut package is going to benefit the wealthiest Americans. I'm protesting the whole tax package, which is a continuation of previous tax cuts that have led us to the fiscal crises we're now facing locally. It would make more sense to restore funds to state budgets for schools, health, and other critical services, and extend aid to the unem-

ployed. I also support the Economic Policy Institute's idea of a 3.5% one-time wage bonus on the first \$15,000 in wages, which would provide a more equitable stimulus package."

Jennifer Greene
Bellport, New York

"I am one of the lower-income single moms with four kids who will not be receiving the much needed tax rebate. I feel like I work hard and struggle daily and I am totally overlooked by this administration. Who needs the extra money more than the lower income families to help pay for back-to-school expenses or just daily living expenses? Taxpayers need to unite to stop the injustice!"

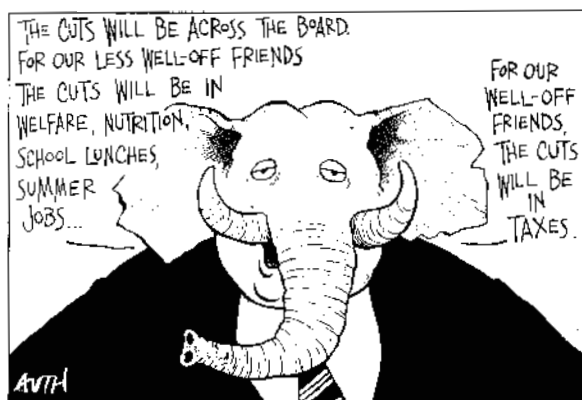
Leana Sanders
Osceola, Indiana

"Tax rebates, if any, should be made to those who need them for survival, not to those who will get along fine without them."

Mary Hitt
Providence, Rhode Island

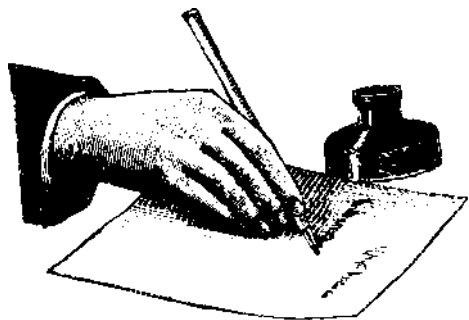
"We are grandparents, so will not be getting a check this summer, but we will have reduced taxes for the year on dividend income - and we believe the tax changes are wrong - bad policy and bad economics."

Frances Greene
Houston, Texas



Proposals on CEO Pay Dominate Annual Meetings

On a recent May morning, the staff of PBS' *NewsHour with Jim Lehrer* followed Responsible Wealth member Ann Sink into the grand ballroom of Wilmington's prestigious Hotel duPont. The journalists listened as Sink presented a resolution to her fellow shareholders asking the company for a comprehensive review of Bristol Myers Squibb's executive compensation policies.



With Bristol-Myers' stock price suffering after a series of embarrassing accounting restatements stemming from overly aggressive revenue reporting, Sink asked her fellow Bristol Myers shareholders to think about the connection between management pay incentives and the persistent accounting lapses. More than 13% of the company's shareholders voted in support of the resolution, which is a relatively high vote for resolutions of this kind.

With a series of corporate accounting scandals fresh in mind, interest in executive pay exploded at this year's annual meetings. More than 300 shareholder resolutions on executive pay were filed this year, making CEO pay the most popular topic. Major institutional investors stepped up their concern about excessive pay, with some state pension funds offering their own proposals on the subject and a larger number lending their voting support.

Two issues, expensing stock options and giving shareholders the right to ap-

prove large severance packages, proved especially popular. In all, resolutions at more than 100 companies received majority affirmative votes. Sadly, only ten companies implemented the policies supported by a majority of their shareholders.

2004 Plans

Five years ago, Responsible Wealth members first used shareholder resolutions as a means of shining a spotlight on excessive executive pay and poor corporate governance standards. With CEO pay now clearly a subject of public debate, both within the business community and in the broader society, RW will shift the focus of our efforts in the coming year. Our resolutions for the 2003-2004 period will focus on asking companies to:

- Link CEO pay to the eradication of predatory lending.
- Report on the distribution of stock options by race and gender.
- Develop investment banking standards limiting work on behalf of clients engaging in predatory lending and profiting from prison labor.

Participation in Responsible Wealth's shareholder resolutions is quite easy. **Please take a moment to fill out the shareholder questionnaire accompanying this newsletter.**

The Rich Get Richer

Pay for Performance?

In recent years, CEOs have received above average pay if they: 1) laid off the most workers, 2) had the most underfunded pension plans, or 3) took greatest advantage of offshore tax havens to shelter corporate income. Despite the third year of a down stock market, *Business Week* reported that the median compensation of large company CEOs rose 6% in 2002, but the median pay for CEOs at the 50 companies with the most layoffs rose 44%. At the 30 companies with the most underfunded pensions, CEO pay rose 59%. And at the 24 companies with the most subsidiaries in offshore tax havens, CEO pay rose 87% from 2000 to 2002, according to the annual *Executive Excess* study released jointly by United for a Fair Economy and the Institute for Policy Studies.

The report also found that the ratio of CEO pay to average blue-collar worker pay was 282-to-1 in 2002, up nearly 7-fold from the 42-to-1 ratio reported in 1982.

Among solutions to control executive pay, **the report suggests a stronger role for shareholders in selecting corporate directors.** The report also recommends **expensing of stock options**, so that options would have to be reported to shareholders as a cost to the corporation, and **capping the deductibility of executive compensation** so that other taxpayers would not be subsidizing exorbitant amounts of pay.

The *Executive Excess* report can be downloaded free of charge from UFE's website at: www.faireconomy.org.

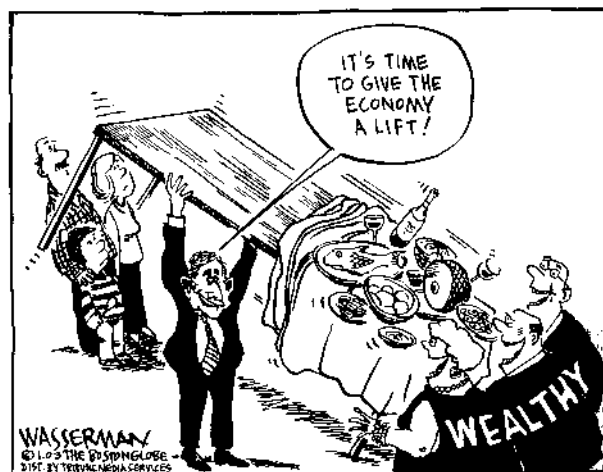
The Richest Get Richer as their Tax Burden Shrinks

The 400 wealthiest U.S. taxpayers (incomes of \$86 million and up) collectively reported 1.1% of the nation's income in 2000, up from 0.5% in 1992. This conclusion and others, from a recent IRS report, provide an insightful annual look at the nation's wealthiest taxpayers.

This select group paid 1.6% of all federal income taxes in 2000, up from 1.0% in 1992. While the income share of the wealthiest 400 more than doubled between 1992 and 2000, their share of the tax burden increased by just 60%, making the personal income tax system less progressive than a decade ago.

According to the IRS, those at the income pinnacle paid 22.3% of their income in federal income taxes in 2000, down from 26.4% in 1992 and way down from the recent peak of 29.9% in 1995.

According to *The New York Times*, a separate IRS report found that in 2002, there were 2,022 Americans, each with more than \$200,000 of income, who paid no taxes anywhere in the world (up from just 37 in 1977).



What Was That You Said?

RW Members Use Their Voices

Action Checklist

A few things you can do today for a fair economy:

- Complete the enclosed **shareholder survey** and consider co-filing a resolution.
- Speak at an upcoming press conference about the impact of estate tax repeal on charities (MN, OR, WA, ME, OH, IN, LA, or AR).
- Ask your Sen. or Rep. to vote for **reform, not repeal** of the estate tax. Switchboard: 202-224-3121.
- Ask your friends to sign the "Call to Preserve the Estate Tax" online: ResponsibleWealth.org
- Join our Speakers Bureau.** We'll help with talking points and media tips, and get your OK for each interview. Contact Mike Lapham at 617-423-2148 x12 for information.

Use Your Voice!

This year, more RW members than ever have spoken to the media, written letters and called policymakers. Here is a sampling of members (bold) in the news:

- December 4, 2002. WBIX radio (Boston) interviews **Charles Sandmel** about RW's Fidelity shareholder resolution re: disclosure of proxy voting.
- March, 2003. **Jody Wisner** (Portland, OR) writes to Charles Schwab to protest their use of monthly statements to urge clients to support the dividend tax cut, sparking UFE's "Shareholder Rebellion." **Aaron Frank** (Los Angeles) closes his Schwab account in protest of the firm's actions. Both appear on numerous radio shows.
- March 3. **Maureen Tate** is interviewed by WURD (Philadelphia) about the weakness of the Bush stimulus plan.
- March 19. **Brad Armstrong** (Boulder, CO) is quoted in *Variety* magazine about the Disney CEO pay resolution.
- March 28. **Carol Rice** (DC) is interviewed by PBS' *Bill Moyers NOW* regarding the Shareholder Rebellion.
- March 28. *The Daily Corinthian* (Corinth, MS) publishes an op-ed by **Tom Thomas** (Philadelphia) about the "Shareholder Rebellion."
- April 2. **Peter Rousselot** writes an op-ed in the *Journal Press* opposing the Virginia General Assembly's efforts to repeal the state estate tax. The repeal effort is narrowly defeated.
- April 23. **Michael Rothkopf** speaks at a press conference in favor of temporarily raising the NJ income tax on wealthy individuals to address the state's budget crisis.
- April 23. **Benjamin Rooks, Leonard Stein, Werner Neuman, and Bill Foster** speak at a press conference in favor of preserving the Illinois estate tax.
- April 16. **Liz Letzler** is interviewed by *American Banker* re: predatory lending.
- April 18. PBS' *Religion and Ethics Newsweekly* host Betty Rollin interviews **Martin Rothenberg**.
- April 25. *Seattle Newsweekly* writes a long piece about RW entitled "Can the Rich be Good?", interviewing **Lois Canright, Alan Rabinowitz, Paul Shoemaker** and **Jody Wisner**.
- April 28. Twenty-seven RW members and other wealthy individuals sign a letter to Gov. Pataki in support of raising income taxes on wealthy New Yorkers to address the state's budget crisis.
- May 14. **William Pope** is quoted in an editorial about the Bush tax cut by the *Seattle Post-Intelligencer*.
- June 3. RW member and economist **Polly Cleveland** is interviewed by WVOX radio (New Rochelle) on the state of the US economy.
- June 10. *NewsHour with Jim Lehrer* includes a segment with **Ann Sink** talking about RW's CEO pay resolution at Bristol-Myers Squibb.
- June 19. Twenty-four RW members and other individuals sign a letter to NJ Gov. McGreevey in support of temporarily raising the top income tax rate.