US executive compensation rose 16 percent in 2000

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The results of a study conducted by Pearl Meyers and Partners, a New York-based executive compensation consulting firm, show that salaries and other benefits for top US corporate officers, already at staggering levels, rose another 16 percent last year.

The report is based on a sampling of 50 of the biggest US industrial and service companies. The data shows that total average executive compensation at the firms surveyed reached $10.9 million in 2000. That compares to an average compensation of $9.4 million in 1999 based on a 200 firm sampling.

Continuing a long-running trend, the bulk of pay came in the form of stock options. Eleven corporate chiefs received stock options with grant values in excess of $50 million. CEOs received an average stock option package of $6.5 million in 2000 compared to $5 million in 1999, a 28 percent hike. Pearl Meyers expects more precise figures when company year-end reports become available this spring.

According to proxy reports filed with the Securities and Exchange Commission, executives at Wall Street investment banks and brokerage firms had another good year despite the poor performance of the stock market. David Komansky, the CEO of Merrill Lynch, took home $32.5 million in 2000, up 18 percent from 1999. About 2000 Merrill Lynch employees lost their jobs last year due to corporate cost-cutting.

James Cayne, the CEO of Bear Stearns, received $33 million last year, a 10 percent increase. At Lehman Brothers, CEO Richard Fuld pocketed $28.3 million in 2000, up 58 percent from the previous year.

These increases come on top of an existing level of wealth for the corporate elite that boggles the mind. The top five CEOs in 1999 had an aggregate compensation of $1.2 billion. Charles Wang and Sanjay Kumar of Computer Associates International took home $512 million and $287.5 million respectively. Steven Case of America Online pocketed $328.4 million in salary, bonuses and stock options while General Electric CEO Jack Walsh took in $45.7 million in direct compensation and cashed in another $48.5 million in stock options.

According to a study conducted last year by the liberal group United for a Fair Economy, the CEOs of the top 50 Internet companies held unrealized stock options at the end of their fiscal years with a total value of $11.7 billion. That figure is five times greater than the combined net worth of the bottom one-third of American households. Individual “Fortune e-50” CEOs held stock options worth $234.9 million on average.

It remains to be seen what impact the emerging slowdown in the US economy will have on executive pay. But there are already signs that corporations are moving to insulate top executives from the impact of falling stock prices.

One method that boards of directors can employ is a so-called underwater option. For example, if an officer is granted options to buy stock at $100 per share and the stock price drops to $70 per share, the stock options go “underwater,” that is, become worthless. However, the board can change the option price to allow the executive to purchase at an even lower price, say $50 per share.

Needless to say, stockholders, including workers who have pension money invested in the market through their 401k plans, don't have similar recourse if stock values drop.

The latest increases in executive pay add to the existing social inequality in an already polarized America. Since the early 1990s executive compensation has jumped 535 percent, dwarfing the rise in workers' pay, which increased 36 percent during the same period, not taking into account inflation. If production workers' wages had risen at the same rate as executive pay their average 1999 earnings would have been $114,035, instead of $23,753. If the minimum wage had gone up at the same rate as CEO pay it would stand at $24.31 an hour.

The performance of so-called e-commerce firms highlights the parasitism of the upper layers of corporate management. While top Internet CEOs are at the head of the list in terms of compensation, the firms they direct add little to the economy in terms of revenue or jobs. Forty-four percent of the top Internet companies employ 1,000 or fewer workers while just 30 percent made the Fortune 500 list of top revenue earners.

During the past US presidential election the issue of executive pay received virtually no attention from either the Democrats or Republicans. The reason is fairly obvious given the incestuous ties between the political establishment and big business. For example, Vice President Richard Cheney received a reported $38 million, including stock options, when he retired as CEO of the oil services firm Haliburton to run on the Republican ticket. Treasury Secretary Paul O'Neil received $25.3 million in salary and stock options when he left Alcoa to join the Bush administration. He also acquired 2.1 million Alcoa shares, exercising stock options for a gain valued at $53 million. O'Neil holds an additional $11 million in stock options and $80 million in stock.

Many former Clinton administration officials have cashed in on their Washington connections to make a killing in the corporate world, including former Treasury Secretary Robert Rubin. The ex-cabinet officer earned $21 million in 1999 from Citigroup. The company came into existence due to legislation that Rubin helped push through Congress while serving under Clinton.