Bonanza for US top executives continues despite falling corporate profits

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Chief executive officers of major US corporations extracted substantial increases in salaries, bonuses and stock options in 2000, even as stock prices fell, layoffs mounted and profits plummeted as a result of the economic downturn. While the typical hourly worker got a pay raise of 3 percent in 2000, the average CEO of a big company received a hike of 22 percent.

America's top 800 corporate executives took home a total of $6 billion last year, according to *Forbes Magazine*. Michael Dell, of Dell Computer, heads the magazine's just released list of highest paid executives, with total compensation of $235 million in 2000. He is followed by Citigroup's Sanford Weill ($216 million), AOL Time Warner's Gerald M. Levin ($164 million) and Cisco Systems' John T. Chambers ($157 million).

The continued rise in executive pay further undercuts the rationale that has been used to justify this gross waste of society's resources: that the massive pay-outs serve as an incentive to improve corporate performance. In many cases corporate executives received huge pay-outs while presiding over substantial declines in their value of their company's stock.

For example:

* William Esrey, the CEO of the US long distance phone company Sprint, was paid $53 million in cash and stock last year, even as the company's stock dropped 70 percent.
* Dennis Kowalski of Tyco International netted $125 million last year while his company's share values fell 24 percent.
* W.J. Saunders III of Advanced Micro Devices pocketed $92.4 million in 2000 as his company's stock value fell 4.5 percent.

According to an April 1 special report on executive pay in the *New York Times*, salaries and bonuses for CEOs increased “while typical investors lost 12 percent of their portfolios last year, based on the Wilshire 5000 total market index, and profits for the Standard and Poor's 500 companies rose at less than half their pace in the 1990s.

“The executives also received $1.7 million in stock, on average, up 14 percent from the previous year. And they were handed an average of $14.9 million worth of stock options, largely because they received almost 50 percent more options than in 1999, according to Executive Compensation Advisory Services, which conducted a survey of pay at 200 companies for Money and Business.”

One example cited was the case of financial wheeler-dealer David Rickey, boss of Applied Micro Circuits. While the shares of his company's stock were plummeting in 2000, Rickey sold them as fast as he could. Between July 2000 and March 2001 he unloaded 800,000 shares in the company, 99 percent of his holdings, making some $170 million in the process. At the same time AMC share prices dropped from $100 to just $29 per share. Rickey was meanwhile urging unwary investors to buy. “I am very bullish about the company,” he told one CNBC interviewer.

Over the past decade stock options have served as one of the primary means of CEO enrichment. A stock option is a guarantee by the company to sell an individual a share of stock at a fixed price. A CEO may be given the option, for example, to buy 100,000 shares at $20 per share. If the stock value rises to $30, the CEO, by exercising the option, would pay $20 per share and reap a net profit of $10 per share. This would give our CEO $1,000,000 in profit, if he cashed in all 100,000 of his options.

The problem faced by executives over the past year is that, in many cases, stock prices have dropped below the value of the option, rendering them worthless. In the above example, if the price of the stock dropped to $15 per share, the owner would lose $5 on every option he or she cashed in. When this happens, the options are said to be “underwater.”

In order to get around this, executives have demanded that they be issued new stock options at a lower price or have their existing options re-priced in order to allow them to realize continued profits.

Another increasingly popular method of fattening the pay of CEOs is the award of so-called restricted stock. Unlike stock options, the executive does not have to shell out a penny in order to make a profit. These stocks—which are essentially no-risk gifts to the executives—are restricted only in the sense that they cannot be sold by the holder before a specified time, usually four to five years. Even if the value of the restricted stocks goes down, the CEO is still guaranteed some profit, unless the company goes bankrupt. As one pay consultant commented, “With restricted stock you just have to breath 18 times a minute to make a profit.”

According to a report in the April 12 edition of the *Wall Street Journal*, “Increasingly, companies are handing out so-called mega-grants of restricted stock—with a face value of at least two times cash pay.” The *Journal* cites as an example Compaq Computer's CEO Michael D. Capellas, who last October received 970,000 restricted shares valued at $24.4 million. Restrictions on 170,000 of the shares lapsed just 30 days after he received them. Compaq also forgave a $5 million loan, which Capellas had used to buy stock.

In March Compaq reduced its projected profit and announced a restructuring plan that will ax 5,000 jobs—7 percent of the company's full-time workforce. On April 24 it announced an additional 2,000 layoffs, citing a further decline in profits. The company's stock was recently trading around $18 per share, well below the $24.50 price when Compaq hired Capellas.

Daniel Schulman, the president and chief executive of Priceline.com, got 2.5 million restricted shares after he gave up his 7 million share options last December. The company also forgave half his $9 million in loans from the company. The company also took a $3.3 million charge to forgive a loan to former chief financial officer Heidi Miller. The stock of the Internet company hit $1.13 by last December, down from an April 1999 high of $162. In November, Priceline.com announced the layoff of 16 percent of its workforce.

"This is heads I win, tails you lose," said one critic of restricted stock, who noted that the issuing of thousands of new shares served to dilute the value of shares held by small investors.

Forbes Magazine reports that CEOs have also used a fairly obscure financial instrument called exchange funds to shelter their fortunes. According to *Forbes*, "An exchange fund is a private partnership that allows individuals, often insiders, to swap a portion of their company stock for a partnership interest in a diversified portfolio of equities pooled with other contributors. When the basket of securities, usually managed by an investment bank, is liquidated years later, the proceeds are divided up among the limited partners in the fund."

Small investors have long been legally barred from participating in such schemes, but the magazine notes, "Exchange funds have been used as a tax dodge for the very rich since the 1960s, and now are peddled by big names like Goldman Sachs, Merrill Lynch, Solomon Smith Barney and Bessemer Trust, but their popularity swelled with the rising Nasdaq. Dollars in exchange funds jumped from an estimated $5 billion in 1999 to $12 billion by early 2000, but the figure was likely far higher at year-end."

Over the past year corporate boards have also showered executives with various perks and extras to pad their salaries and bonuses. For example, Apple Computer CEO Steven Jobs received a special bonus of a Gulfstream jet valued at $90 million and 20,000,000 stock options even as company share value fell 13 percent.

Companies are continuing to award executives with huge severance payoffs, or so-called golden parachutes. When Mattel CEO Jill Barad resigned in February 2000, she received a $50 million parting gift. During her tenure the toy company's stock had dropped from over $40 per share to just $11.

Under the capitalist system, countless billions are being frittered away to enrich a handful of men and women who have presided over the growing economic disaster in America. Hundreds of thousands of working people have lost their jobs and livelihoods. Share prices have fallen, in some cases catastrophically, undermining the holdings of millions of working people whose retirement savings and other investments are tied up in the stock market.

The extravagant pay-outs are irrational, even from the standpoint of the day-to-day requirements of running a business. Huge amounts of resources, which could be better used for research and investment—not to mention the improvement of workers' wages, benefits and working conditions—are squandered through stock buyback plans to boost "shareholder" value and compensation packages to satisfy the appetites of the super-rich.

Moreover, this parasitic activity is self-perpetuating. According to the *New York Times*, "Most of the people who serve on corporate boards are themselves top executives, and most companies set pay scales by researching the competition and then aiming to pay executives at the 50th or 74th percentile of what similar companies pay. As a result directors have an incentive to award ever rising paychecks. Often they owe their presence on the board to the chief executive."

The socialist indictment of capitalism is not simply based on the fact that the inequality it breeds is unjust (which it certainly is) but that the drive for private profit represents a barrier to the rational allocation of resources and the development of production itself. As the experience of the last decade demonstrates, the unfettered operation of the market leads to monopoly, waste and fraud on a vast scale.

What pressing concerns could be addressed if the billions being spent on CEO pay were directed toward productive purposes? How much low-cost housing could be built? How many new hospitals, schools or medical research centers could be constructed?

Over the past decade the richest one percent of the population has participated in the looting of society's wealth to the detriment of the vast majority of the population. While the pay of corporate executives has soared, the bottom 90 percent have seen their incomes stagnate or decline.

This financial elite constitutes the real rulers of the United States. Today, more than ever, America resembles a plutocracy, a society governed by a handful of enormously wealthy individuals. As time goes on it will become ever more evident that this state of affairs is completely at odds with the rational development of economic life.