CEO pay soars as US stocks plummet

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In early 2001, WorldCom CEO Bernard Ebbers received a $10 million bonus in return for his pledge to stay on with the telecommunications giant for at least two more years. On top of that, the company granted him a $61.5 million loan and a guarantee for $100 million more in additional loans. In 2000, Ebbers received more than $34 million in salary, bonuses and long-term compensation, including stock options.

One might expect that a company doling out such high levels of cash and other perks to its top executive was doing extremely well. But in fact the long-distance telephone company has been struggling to recover from a failed merger with Sprint Corp., and is in the midst of a restructuring plan to stave off losses. For the second quarter of 2001, WorldCom group, which comprises the corporation's communications, Internet and telephone services, posted a net income of $574 million, down $197 million from the same period last year. The company's separate MCI group lost $29 million, dropping dramatically from its $541 million in profits in the second quarter of 2000.

This past February, around the same time CEO Ebbers was raking in his multimillion-dollar compensation package, WorldCom laid off 6,000 of its 77,000 employees, mainly in its sales and marketing operations. A study released last month by the Institute for Policy Studies and United for a Fair Economy—"Executive Excess 2001: Layoffs, Tax Rebates, The Gender Gap"—shows that Ebbers' situation is not unique among chief executives at US corporations today.

The report examines 52 US firms that announced layoffs of 1,000 or more workers between January 1 and August 1, 2001, a period when more than 777,000 US workers lost their jobs. The study shows that as the economic boom of the 1990s began to falter in 2000, and profits and share values plunged, CEOs at financially distressed companies continued to pull in mammoth salaries. Moreover, the report reveals how CEOs at those companies that eliminated the most jobs earned substantially more than other executives.

As in the case of WorldCom CEO Bernard Ebbers, some of the top-earning CEOs were at the helm of corporations that have carried out thousands of job cuts. Dell Computer Corp. has eliminated 5,700 jobs so far in 2001, and its chief executive Michael Dell received $201.3 million in total compensation. JDS Uniphase CEO Kevin Kalkhoven took in $106.9 million in 2000; the fiber-optic components maker has cut 12,000 jobs so far this year. The report cites many more examples.

But even more significantly, many of these "layoff leaders" received hefty compensation packages while their companies were losing millions of dollars in profits and share values plummeted. Merrill Lynch & Company, the nation's biggest brokerage firm, for example, reported a 21 percent drop in net income for the quarter ended July 30, with earnings of $874 million compared to $1.1 billion for the same period last year. The company has eliminated 1,700 jobs this year. But Merrill Lynch chief executive David Komansky made $39.1 million in 2000, up 82 percent from 1999.

Minneapolis-based telecommunications equipment maker ADC Telecom announced August 23 a $40 million loss in the quarter ended July 31, compared to a $121 million profit in the same period last year. The company announced March 27 that it was eliminating 4,000 jobs. ADC Telecom CEO W.J. Cadogan, however, received a 150 percent increase in salary and bonus over his 1999 earnings, and took home a total compensation package of more than $45 million.

Even when the stock market bubble began to burst in 2000—and trillions of dollars in paper wealth, particularly in the high-tech sector, were lost—CEO pay continued to rise. According to *Business Week*'s annual survey of 365 of the biggest US companies, executive pay rose to an average of $13.1 million a year in 2000. The magazine also reports that four of the top-earning CEOs for the last five years have come from companies which they describe as "marginal to horrible performers" in the market—Walt Disney, Cendant, Computer Associates and Apple Computer.

"Executive Excess 2001" argues that these figures debunk the claims of those who contend that "the market" determines CEO pay. The authors of the study describe a situation inside corporations where committees that determine CEO compensation are generally controlled by the CEOs themselves. The report cites a *Fortune* magazine investigation: "Directors who won't play along [with the increases] are rotated out to other committees. One chairman of a compensation committee agreed with another director that 'this stuff is wrong,' but went on to say, 'we've got to do it.'"

When the economy was expanding the huge salaries and bonuses were justified with claims that the CEOs were generating huge profits, improving a company's position and creating jobs. This of course ignored the fact that the ultimate source of profit is not the business acumen of top executives, but the physical and mental labors of working people. Nevertheless today it cannot even be claimed that multimillion-dollar packages are a reward for business success.

Companies are continuing to pay these salaries and bonuses to America's top CEOs even as they face falling profits, financial instability and are cutting their workforces. This demonstrates the essentially anti-social and parasitic tendencies inherent within the profit system. It is a particularly glaring example of how, under capitalism, the interests of the working population and society as a whole are subordinated to the drive for profit and the enrichment of a tiny elite.

Under conditions of an economic downturn, the acquiescence of boards of directors to the seemingly insatiable greed on the part of company CEOs also represents a colossal mismanagement on the part of these capitalist enterprises, in many cases threatening the viability of the corporations themselves. As CEO compensation continues to rise, resources needed for research and development, upgrading machinery, not to mention improvements in working conditions and the living standards of employees, are squandered, placing these companies on even shakier ground.

"Executive Excess 2001" documents a virtual explosion in executive pay over the past decade, which jumped a phenomenal 571 percent between 1990 and 2000. This dramatic increase in CEO compensation dwarfed the increase in workers' pay during the same period, which grew by only 37 percent, barely surpassing the 32 percent rise in the cost of living due to inflation. CEO pay now stands at 531 times the pay of the average US worker. According to the study, if the average pay for production workers had grown at the same rate since 1990 as it has for CEOs, workers' 2000 annual average earnings would have been $120,491, instead of the present $24,668 average.

As executive salaries soared during the economic boom of the 1990s, millions of workers and their families saw their standard of living deteriorate. Over the past decade, social programs have been gutted and millions of poor people have been thrown off the welfare rolls. According to the Economic Policy Institute, 29 percent of working families do not earn a living wage. Of these families, 70 percent experience real hardships, such as skipping meals or forgoing needed medical care.

The bloated compensation packages of corporate CEOs represent a considerable percentage of the resources of society, which could go towards funding urgent social needs—such as growing poverty, homelessness, a collapsing educational system, urban blight, a crumbling infrastructure. The squandering of billions of dollars on individuals—who in fact produce little wealth—while the needs of increasing numbers of the population go unmet is an indictment of a system based on private ownership of the means of production. How can such a misuse and misallocation of resources be justified?

Furthermore, the unchecked greed of these top executives endangers the livelihoods of hundreds of thousands of workers employed by these corporations. These workers and their families depend on company paychecks, retirement packages, medical and other benefits, which are jeopardized by a reckless policy on the part of management that subordinates their economic security to the self-aggrandizement of these CEOs. From every standpoint—moral, social and economic—this practice is criminal. It represents a level of corruption and plundering of resources unparalleled in the history of corporate America.

The study also shows how corporations resort to outright fraud to pad the bank accounts of their top executives. One particularly lucrative method is tax evasion: "Many taxpayers probably don't realize that hundreds of millions of dollars in corporate tax rebates routinely flow into the coffers of some of America's richest corporations, sometimes reducing their total tax bill to less than zero. Less than zero? How is that possible?" The study's authors explain how companies use a wide variety of special tax breaks to reduce their liability.

Some corporations write off the depreciation of factories, buildings and equipment faster than they actually wear out. They also receive tax breaks for research and development, Puerto Rican operations, oil drilling, and other company practices. They hire the expertise of high-priced corporate lawyers to design individualized tax shelters. The end result is that while the statutory tax rate of corporate profits is 35 percent, many companies pay as little at 20 percent and some pay none at all.

In a particularly creative method of reducing their taxes, corporations take a tax deduction in the same year that employees exercise their stock options. This deduction is equal to the difference between what the employees pay for the stock and what it's worth. As a result, when an executive cashes in his stock options, his bank account grows and the company's tax bill is reduced.

Not surprisingly, corporate CEOs are often first in line to collect their share of swindled tax revenue. According to "Corporate Income Taxes in the 1990s," a study of 41 large companies issued in October 2000 by the Institute on Taxation and Economic Policy, in 1996-98 CEOs of companies receiving tax rebates saw their pay rise by a total of $194 million. At six companies—Black & Decker, Praxair, Coca-Cola, Colgate-Palmolive, Enron and McKesson—pay raises for the companies' top executives devoured the entire tax rebate for that year.