US executive pay soars again in 2001

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Despite a recession, massive layoffs and declining stock prices in 2001, the compensation of US executives at the biggest corporations surged ahead last year, with CEOs raking in billions in salaries, bonuses and stock options.

One of the top moneymakers in 2001 was Oracle CEO Lawrence J. Ellison. The executive cashed in $706.1 million in stock options, even as returns of the software company plunged 57.4 percent, devastating small investors. Ellison's compensation, according to one estimate, is about 15,689 times the pay of a typical worker.

Another software company, Cisco Systems, awarded its CEO, John Chambers, stock options worth a potential $226.7 million in 2001, even as stock returns fell 70.6 percent. Meanwhile SBC Communications awarded its top officer Ed Whitacre a package worth $155 million, up 163 percent from 2000. The company saw its stock price drop 18 percent in 2001.

These figures illustrate a central feature of capitalism at the beginning of the twenty-first century: the parasitism and corruption of the business elite. More and more the activities of the corporate bosses take the form of wholesale looting of society's wealth. This phenomenon is not just limited to a few companies, but is widespread and pervasive.

According to a report published in the March 25 edition of *USA Today*, overall compensation for US executives increased 24 percent in 2001 to a median of $10.2 million. At the same time, the Standard & Poor's 500 stock index fell 13 percent. The figures were compiled for the newspaper by the Investor Responsibility Research Center, which reviewed 267 companies with revenues over $1 billion.

During 2001 top CEOs raked in an average of $11.4 million apiece from cashing in stock options, despite the overall decline in the market. In order to compensate executives whose outstanding stock options had lost their value because of the fall in share prices, many companies issued large amounts of new options.

This is the second year in a row that CEO compensation has risen while stock prices declined. In 2000, average CEO pay package rose 60 percent. During the same period the typical investor lost 10 percent of his or her portfolio and workers' wages barely kept up with the rate of inflation.

According to a study conducted by *Forbes* magazine, average CEO compensation, including stock options, grants and so-called restricted stock, increased 166 percent between 1996 and 2000, to an average of $7.43 million. At the same time, corporate profits grew only 16 percent and per capita income grew 18 percent.

Even these figures do not reflect the full extent of the disconnect between executive pay and the performance of the economy. In the wake of the Enron scandal and other high-profile collapses like that of telecommunications giant Global Crossing, the accuracy of corporate profit reports in general have been called into question. Some have suggested that a large share of recent reported increases in corporate earnings have been the result of cooked books, not actual improvement in performance or productivity. Indeed, given the universal use of stock options to reward corporate executives, there is a huge incentive for bosses to seek ways to artificially drive up stock prices, even to the point of fraud.

Enron is only the most well-known case of a practice that is widespread throughout corporate America. Again, according to *Forbes,* "In 2000 alone, Enron's top five executives received payments of $282.7 million.... Roughly 80 percent of the total compensation came from cashing in stock options. The ultimate value of these options depended on share price."

A March 1 op-ed piece in *USA Today*, entitled "CEOs cash in too easily on crumbling corporations," said Enron boss Kenneth Lay “cashed in $100 million worth of stock last year, some of it sold at a time he was urging workers to buy, and almost all of it before Enron restated its earnings and began the death spiral that destroyed many workers’ pensions.” The writer continued, “A new study by the Progress & Freedom Foundation, a free-market think tank in Washington, found that 60 insiders at seven telecommunication companies cashed in more than $1.4 billion in stock as companies were falling apart during the past two years.”

However, outright fraud is not necessary for CEOs to make huge pay gains, even as the companies they head foundered. In most cases corporate boards are willing to lavish rewards on executives as corporate stock plunges and firms head into bankruptcy. Said David Thompson, director of the Economic Research Institute, “We’ll continue seeing huge stock option grants and solid increases in CEO pay. That’s the game. It’s been going on for years. It’s incestuous. It’s not going to change.”

Many former corporate directors and former politicians sit on corporate boards. In addition, they are often directly beholden to the executives they are supposedly overseeing. For example, it has been revealed that three Tyson Food directors have business deals with former chairman Don Tyson and his son, CEO John Tyson (*USA Today*, March 5, 2001). Despite flat profits in 2001 the board awarded Don Tyson an $8 million consulting deal and a bonus; John Tyson received a $2.1 million bonus.

Other boards have been even more generous. Shares of the industrial conglomerate Tyco International fell 12 percent last year. However, the board of directors awarded CEO Dennis Kozlowski a 36 percent increase in salary and bonus. It also awarded him $30.4 million in restricted shares and stock options worth $76.4 million.

Shares of Coca Cola fell 23 percent in 2000, yet corporate chief Douglas Daft got a 17 percent pay increase. He also got stock options potentially worth $45.7 million and restricted stock worth $47.9 million.

Meanwhile, the board of directors of the bankrupt retailer K-Mart is seeking to award former CEO Chuck Conaway a $6.5 million bonus, even as the company shuts down hundreds of stores and lays off 22,000 workers.

In the wake of the Enron scandal various proposals have been advanced to rein in executive pay, such as tying executive compensation more directly to company performance. However, the assumption on which these schemes are based is fundamentally flawed. All reform proposals take as their premise the false idea that the capitalist market is in some way compatible with equity and social justice. In fact, as time goes on it becomes ever more apparent that inequality, waste and fraud on a mass scale are not incidental to capitalism. They are inevitable products of the drive for private profit.