NYSE’s $188 million man forced out

Grasso and Wall Street’s “governance” crisis

Jamie Chapman
30 September 2003

New York Stock Exchange (NYSE) chairman and chief executive Richard Grasso resigned on Sept. 17 at an emergency meeting of the NYSE board of directors, who voted 13-7 for his ouster. The forced resignation came only three weeks after the board disclosed their earlier payout of $140 million in deferred compensation and retirement benefits to Grasso, at that time lavishing him with praise for his “outstanding leadership.”

How did Grasso go so quickly from being “the number-one man for the job” to being shown the door?

From the day that his $140 million package was announced, public controversy swirled around the normally staid NYSE. The obvious question was, how could the NYSE carry out its responsibility to investors to ensure the fairness of trading executed by its broker-members, when those same brokers were paying the person in charge of regulating them such obscene amounts of money?

The question is of no small importance. Trades valued in excess of $10 trillion are made every year on the NYSE. Nearly 2,800 of the world’s largest companies are listed on the exchange, with a market value approaching $15 trillion—more than three times the size of the world’s second largest exchange. Founded in 1792, the NYSE assumed world preeminence with the rise of American capitalism in the 20th century. The results of each day’s trading on the NYSE are universally quoted around the world.

Besides the economic influence of the NYSE, there is its ideological impact as well. For the defenders of capitalism, the stock exchange is the epitome of “freedom.” Individuals both rich and poor, the logic goes, meet to trade freely and, depending on how wisely they choose their investments, they have an equal opportunity to make or lose their fortunes. As the NYSE’s own press releases put it, “Buyers and sellers meet directly in a fair, open and orderly market to realize the best possible price through the interplay of supply and demand.”

As part of the post-World War II stabilization, the leaders of the advanced capitalist countries sought to make stock ownership more widespread—no matter how small the shareholdings per person—in an effort to get workers to identify themselves as *owners* and to undercut the growth of socialist consciousness.

This process has become far more widespread as cost-cutting has done away with company-funded pension plans for the vast majority of the population, leaving employees to invest their own money in 401-k plans and other market-driven retirement funds. Estimates today are that 85 million Americans own stock either directly, or indirectly through retirement plans. However, stock ownership remains heavily concentrated in the hands of the rich. It is estimated that the wealthiest 10 percent owns at least 85 percent of all stock.

No wonder, then, that the nation’s financial elite took notice when news of Grasso’s extraordinary compensation threatened the NYSE’s reputation. As California state treasurer Phil Angelides, representing the $138 billion state employees’ pension fund, later wrote, “[W]e have a keen interest in ensuring that the NYSE moves rapidly to restore the moral authority that it needs to fulfill its mission.”

On Sept. 2, the head of the federal Securities and Exchange Commission (SEC), William Donaldson, issued a letter questioning “the effectiveness of the NYSE’s current governance structure” and demanding a complete year-by-year accounting of how Grasso accumulated so much money. He also demanded minutes of all board meetings where Grasso’s compensation was discussed.

The Sept. 9 response from the exchange’s compensation committee chairman, last year’s defeated Democratic candidate for governor of New York, Carl McCall, caused a still greater furor. In addition to the $140 million already paid out, it seemed Grasso was due to take home another $48 million over the next four years. Several board members claimed they had no idea that the contract they approved in August sanctioned such future payouts, raising further questions.

At the board’s suggestion, Grasso agreed to forgo the additional $48 million, but by then the die was cast. Demands emerged for Grasso to resign, starting with a group of the exchange’s floor trader members who were infuriated to learn of Grasso’s pay at a time when he had imposed new “regulatory” and “technology” fees on traders, each totaling about $23 million a year—roughly equivalent to Grasso’s annual take.

Not counting the benefit of an 8 percent interest rate guarantee on previous deferrals, Grasso’s remuneration peaked in 2001 at $30.6 million, more than 15 times the $2 million he received in 1995, his first year as chairman. His 2001 compensation included a $5 million special bonus for ensuring the NYSE’s smooth reopening for business after the Sept. 11, 2001, terrorist attacks destroyed the nearby World Trade Center.

The calls for Grasso’s resignation mounted. On Monday, Sept. 15, a former NYSE chairman from the 1970s, James Needham, called not only on Grasso, but also on all board members involved in setting his pay, to step down. On Tuesday, Angelides held a press conference at which he called for Grasso to resign. On a national television news program, he pointed out that none of the emergency service workers involved in the Sept. 11 rescue and clean-up operations received any bonuses, much less the $5 million given Grasso. He further pointed out that the average American wage-earner would have to work 5,200 years to achieve Grasso’s pay.

Angelides was joined in his call by New York State comptroller Alan Hevesi, trustee of his state’s employee pension fund, as well as by North Carolina’s state pension fund manager. On Wednesday morning, the *New York Times* added its editorial weight to the chorus, and Democratic presidential candidates Joseph Lieberman and John

© World Socialist Web Site

Edwards chimed in as well.

In response, Grasso called a special board meeting for a week later to discuss governance issues. By now, however, the board had gotten the message and, without further delay, convened the emergency meeting late Wednesday at which the vote was taken to accept Grasso's reluctant resignation offer. Even in removing him, however, according to McCall, "Every single director on our conversation discussed the great job that Dick has done as chairman and chief executive."

The public campaign against Grasso was highly unusual. Most boardroom battles are fought out behind the scenes. The NYSE is not even a public company, but a private association of securities traders officially answerable to no one but themselves. Beyond that, Grasso was widely credited with preserving the NYSE's preeminence in face of more highly automated competitors.

America's ruling elite are acutely sensitive to any influence that could destabilize the already shaky economy. A loss of confidence in the NYSE could trigger an outflow of foreign investment, forcing a jump in the low US interest rates that have kept the economy barely afloat.

Of even greater concern, however, are the political ramifications.

Before Sept. 11, 2001, the corporate scandals of 2001 combined with recession were seriously undermining the limited popular support that existed for the unelected Bush administration. Bush's ratings soared in the aftermath of the terrorist attacks, with reports of corporate malfeasance largely eclipsed by the "war on terror." Today, as millions of workers face continued job losses and uncertainty, public exposures of rampant illegal corporate practices have resumed, particularly in the financial services industry.

This week, the former chief executive of Tyco International, L. Dennis Kozlowski, went on trial in New York on charges of stealing $600 million from his company and its investors. Simultaneously, Credit Suisse First Boston investment banker Frank Quattrone took his place in the dock in a New York federal court; he is accused of ordering the destruction of incriminating documents to block a probe into financial scams that netted him and his associates hundreds of millions of dollars.

In April, 10 major stockbrokers paid $1.4 million in fines for issuing misleading research reports on companies with whom the brokers had undisclosed business ties. Major mutual funds have been accused of favoring certain clients by illegally allowing them to trade after hours. Merrill Lynch has been fined for assisting Enron in concealing its true financial condition. And five major "specialist" traders at the NYSE are under investigation by the SEC for using their position as market makers to put their own trading interests ahead of those of their customers.

Under these conditions, there was increasing concern within leading financial circles over the effect of continuing to focus public attention on the outrageous salary, not just of any CEO, but of a CEO charged with enforcing regulations against just the kind of fraudulent trading that is once again becoming the focus of public attention.

Moreover, the controversy served as a blatant illustration of the market's role in the enormous widening of the gulf between wealth and poverty in America over the past two decades. A recent report from the Congressional Budget Office indicated that in 2000 the combined after-tax income of the richest 1 percent of the US population amounted to more than that of the poorest 40 percent. Just 20 years earlier, the figure for the top 1 percent was half that of the bottom 40. Analysts attributed much of the massive growth in inequality to both the stock market and executive pay.

All of the public calls for Grasso to resign had one common thread: "to strengthen public confidence in the integrity of the market," as the *New York Times* editorial writers put it.

Even after Grasso's resignation, the NYSE continues to flounder. A second board meeting on the night of Sept. 17 failed to produce any directors willing to assume the chairman's post on an interim basis, and several days of searching for outside alternatives produced only more refusals. Whoever succeeds Grasso will come under intense scrutiny, and would have to work for a modest regulator's salary.

Finally, on Saturday, Sept. 20, the head of the search committee tracked down the former chairman of Citigroup, John Reed, vacationing on an island off the coast of France. He agreed to work as interim chairman for a token $1 until a permanent replacement could be found. No stranger to the stratospheric sums commanded by high-powered CEOs, Reed retired in April, 2000 holding stock and stock options valued at $384 million. Unsure if his $2.9 million annual pension would cover his expenses, the Citigroup board granted him an office with secretarial support, access to a car and driver, financial planning services for five years, and a home computer.

Reed's appointment was received with relief in financial circles, and was specifically endorsed by the SEC's Donaldson. As a *Wall Street Journal* reporter put it, "it stemmed disorder that had been growing at the exchange..."

There is a major element of wishful thinking in the business media's promotion of Reed as Wall Street's savior. Numerous issues remain to be resolved, including proposals for a charter revision to prohibit securities industry executives from serving on the NYSE board; adoption of new guidelines for executive compensation; calls for the resignation of other overpaid NYSE officials as well as board members involved in approving Grasso's pay; resolution of the SEC investigation into NYSE trading irregularities; and a likely restructuring of the exchange to separate the regulatory function from the trading function, including the possible sale of stock in the trading arm.

Nor will it be easy to recruit a permanent chairman to replace Reed within the six months to a year he has agreed to serve, although the name of US Treasury undersecretary Peter Fisher has been floated. In 1998, in his former position at the US Federal Reserve Bank of New York, he helped orchestrate the $3 billion bailout of the failing hedge fund Long Term Capital Management, whose imminent collapse was threatening world markets.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact