Report documents runaway American CEO pay and war profiteering

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A recently released study on CEO compensation in the US reveals that chief executives at the largest US defense contractors are profiting greatly from the Bush administration's "war on terror" and the Iraq war, bringing in paychecks that have more than doubled since 2001.

According to the study, CEOs at the largest defense contractors have received a 200 percent raise since the September 11, 2001 terrorist attacks, compared to a 7 percent increase for chief executives at other large companies.

The August 30 report, released to coincide with Labor Day, makes clear that the "war on terror" and the Iraq war are a financial bonanza for the US ruling elite.

The study states, "As the casualty count in Iraq continues to rise, top executives of defense contractors are cashing in on the war and the post-9/11 boom in overall defense spending." Expenditures for defense rose nearly 25 percent since 2001 to $406 billion in 2004, with half of that amount spent on private contractors.

The report, entitled "Executive Excess 2005: Defense Contractors Get More Bucks for the Bang," was conducted jointly by the Washington-based Institute for Policy Studies and the Boston-based United for a Fair Economy. The definition of CEO compensation used by the report, which is the same as that traditionally used by *BusinessWeek*, includes salary, bonuses, restricted stock awards, payouts on other long-term incentives, and the value of options exercised in a given year. It does not include the estimated value of options granted but not exercised.

The study looked at the 34 publicly traded companies with at least 10 percent of their revenues from defense contracts in 2004. While most of the top 100 defense contractors were privately held, the 34 included in the report were publicly traded, meaning that their financial results were easier to research, since privately held corporations have lower reporting requirements for transparency and their financial information is not usually open to public scrutiny.

Excluded from the study, besides privately held companies and those firms that received less than 10 percent of their revenues from defense contracts, were defense contractors such as universities, joint ventures and corporations headquartered outside the US.

The 34 firms covered by the report include United Technologies, DHB Industries, Halliburton, Textron, Rockwell Collins, General Dynamics and Raytheon.

The report pointed out some of the worst of the war profiteers:

* "Body armor profiteer" David H. Brooks, the CEO of bulletproof vest maker DHB Industries, personally earned $70 million in 2004, a 13,349 percent increase from his 2001 compensation of $525,000. The report notes, "Brooks also sold company stock worth about $186 million last year, spooking investors who drove DHB's share price from more than $22 to as low as $6.50."

The US Marines recalled over 5,000 DHB armored vests issued to troops in Iraq and Afghanistan after their effectiveness to stop bullets was called into question. "By that time, Brooks had pocketed over $250 million in war windfalls," the study notes.

* David Lesar, CEO of Halliburton, formerly headed by Vice President Dick Cheney, received a 171 percent pay increase between 2003 and 2004, "the period when government auditors were tallying up $1.4 billion in 'questioned' or 'unsupported' charges by the company for work in Iraq."

* United Technologies CEO George David raked in $88 million in 2004, the same year the Pentagon terminated its Comanche helicopter program. After investing $6.9 billion and 21 years of effort into the helicopter—"including 10 years with David at the helm"—the project was scrapped upon recommendation by

the Army after projected costs for the helicopter continued to balloon.

* J.P. London, CEO of CACI, whose employees served as interrogators and were involved in the torture scandals at the notorious US-run Abu Ghraib prison complex in Iraq, saw his pay jump 170 percent to $3 million in 2004.

According to the study, the average CEO-to-worker pay in the US also increased greatly, from 301-to-1 in 2003 to 431-to-1 in 2004. By contrast, in 1990 the average CEO pay was "only" 107 times more than the pay for the average production worker.

The report notes that if the average pay of workers had risen as fast as CEO pay since 1990, the lowest paid workers in the US would be earning $23.03 an hour, not $5.15 an hour, and the average production worker would make $110,126 annually, rather than the $27,460 average earned in 2004.

Other key findings of the report include:

* "Book Cookers": Between 1995 and 2004, CEOs of firms accused of using shady and/or fraudulent accounting practices appeared 18 times on the top 10 lists of the highest paid CEOs each year.

* "Tax Dodgers": The $12.6 million average CEO pay of the 46 companies that paid no federal income tax in 2003 was 55 percent more than the $8.1 million received by the average CEO that year.

* "Gross Pay": The cumulative pay over the last 15 years of the 10 highest paid CEOs in each year, taken together, totals more than $11.7 billion.

The entire ruling class stands exposed as a criminal class profiting from war and capitalizing on natural disasters that bring calamity and massive human suffering. As this report and others have documented, the wholesale looting continues unabated, and Washington's war drive has increased the feverish rate at which the financial elites exploit workers, whose social and living conditions continue to deteriorate.

A PDF version of the report can be accessed online at: http://www.faireconomy.org/press/2005/EE2005.pdf