US: CEO pay climbs to “stratospheric heights”

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Compensation for chief executives at the largest US companies continued to increase last year, according to a study published by the Associated Press on Saturday. CEOs at half of the public companies listed on the Standard & Poor’s 500 received a combined total of $4.16 billion in 2006.

According to the AP calculation, the highest paid chief executive was Yahoo’s Terry Semel, who received $71.7 million in pay, stock options and other forms of compensation. Half of the CEOs in the companies surveyed pulled in more than $8.3 million.

The top-paying industries were investment banks and energy companies. Second on the AP’s list was Bob Simpson of XTO Energy Inc., with $59.5 million, and third was Ray Irani of Occidental Petroleum, with $52.8 million.

The AP’s figures are based on a new formula for calculating executive pay, which is different from that used in other reports, including the companies’ own filings with the US government. The news agency, which described compensation for the nation’s corporate executives as reaching “stratospheric heights,” included the estimated value of the stock options handed out to CEOs in 2006, and did not include the amount of money that executives received by exercising stock options they were given in earlier years.

For the top CEOs, this meant in many cases that the figures reported by the AP were less than those reported elsewhere, while in others they were higher. Occidental Petroleum’s Irani, for example, had a net gain of $270.2 million by exercising his stock options alone.

A report published by Forbes magazine in May—which counted exercised stock options and vested restricted stock, but did not count the estimated value of stock options at the time they were granted—yielded much higher numbers for the top executives. Topping Forbes’ list was Apple’s Steve Jobs, who gained $647 million from vested restricted stock. Semel came in fifth, with $174 million, according to Forbes.

Since the AP report was based on a new formula, comparative figures for earlier years were not available. However, Forbes found that executives in the S&P 500 saw a collective 38 percent pay raise from 2005, reaching an average compensation of $7.5 billion.

Almost all of the CEOs on the S&P 500 earned at least $1 million, with only six of those surveyed by the AP falling short. “The lowest paid was Costco Wholesale corp. CEO James Sinegal, who made $411,688,” the AP reported. “But no need to shed tears for him: Sinegal also owns 2.4 million Costco shares, worth about $1.3 billion, and has options to buy 1.2 million more shares.”

The figures for 2006 highlight the continued role that stock options and other forms of stock pay play in boosting executive compensation. Most of the pay for Semel, for example, came in these forms of compensation, which serve to tie the interests of executives to the short-term performance of the company’s stock.

While excessive CEO pay has provoked some complaints from investors, these have been relatively muted because of the continued rise of the US stock market. So long as the value of company stock continues to increase, enormous executive pay is not a problem for large investors, since everyone—at least everyone in the top 1 percent of the population—is getting a share.

The AP report notes that 2006 “was expected to be the year that investor anger over pay boiled over. After Home Depot Inc.’s Robert Nardelli and Pfizer Inc.’s

Henry A. McKinnell left their battered companies with golden parachutes worth $210 million and nearly $200 million, respectively, shareholder activists entered proxy season this spring primed for a showdown on pay and outsized retirement packages. It didn't happen."

In individual instances, concern has been voiced from these quarters. Semel's pay has drawn criticism from Institutional Shareholder Services, an organization representing large shareholders, which argued in a May 30 report that Semel's pay, including his large stock options grant, "is troubling in light of the company's recent poor stock performance and corporate performance."

This is the exception rather than the rule. According to one report, for example, large mutual funds have not sought to use their clout to limit pay, and in the majority of cases have supported CEO pay increases and opposed attempts to impose greater controls.

As far as large investors are concerned, the job of the CEO is to ensure adequate returns on capital investment—by driving down wages, limiting worker benefits, implementing stock buyback programs, and pursuing other mechanisms for increasing corporate profits.

CEO pay, high as it is, is nevertheless dwarfed by the compensation for managers at the top hedge funds, which coordinate investments for the extremely wealthy. The 25 highest-paid hedge fund managers in the US had an average income of $540 million in 2006, according to a report in *Alpha* magazine in April.

The beneficiaries of the continued rise in the US stock market are increasingly a tiny layer of the population. In 2004, nearly 60 percent of all capital income (income from interests, dividends, rents and capital gains) went to the top 1 percent. This share was the largest since these figures were first recorded in 1979. It has been steadily rising over the past decade, and was no doubt over 60 percent in 2006. At the same time, corporate profits relative to employee compensation and the national income are also at record highs and rising.

This means that there has been a steady redistribution of wealth over the past quarter century, and in particular over the past several years. Real wages have stagnated or declined, while the earnings of top executives and investors have skyrocketed. The AP article notes, citing a study by the Institute for Policy Studies, that if the federal minimum wage had increased at the same rate as CEO pay, it would now stand at $22.61. Instead, it will increase to a meager $5.85 in July. The real minimum wage has actually fallen substantially over the past three decades.

The US economy's obsessive focus on the self-enrichment of a tiny layer of the population has come at the expense of increasing economic insecurity for masses of people. Social programs in the US are under continued attack, and budget shortfalls in many states are being used to push through cuts in education and other funding.

Even the long-term viability of many companies has been sacrificed in the interest of short-term wealth accumulation—a phenomenon most recently seen in the sale of US auto giant Chrysler to the asset-stripping corporate raider Cerebus. Indeed, the continued rise in executive pay is not a sign of any underlying health of the US economy, but rather the opposite. It both reflects and exacerbates the continued decay of the country's economic and social infrastructure.

The figures on CEO pay once again highlight the fact that the resources exist to begin addressing these problems, but they are concentrated in the hands of a ruling elite that is increasingly rapacious in defense of its wealth and privileges.

However, nowhere within the political establishment are there any serious proposals to address social inequality. Both the Democrats and Republicans represent the interests of the same social layer that has benefited from these policies. In Congress, the Democrats have led calls for fiscal austerity and a "pay-as-you-go" system to limit spending increases.