A faltering economy hasn't slowed American CEOs' pursuit of wealth

David Walsh
16 April 2008

The incomes of American chief executives surged ahead in 2007 and into early 2008, despite an economy that was beginning to unravel and various half-hearted (or less) efforts to bring the process under control.

Numerous reports point to this reality. The *Wall Street Journal*/Hay Group 2007 CEO Compensation Survey is one of the most recent. A week earlier, on April 6, the *New York Times* carried a lengthy article that cited the findings of the compensation research firm Equilar.

USA Today ran a piece April 9 entitled, "Stocks may fall, but execs' pay doesn't." On April 15 *CNNMoney.com* posted a column, by an editor from *Fortune* magazine, headlined, "Rewarding Failure," with this underline: "CEO pay has risen faster than corporate profits, but there are major obstacles to changing the system."

The general picture is this. American CEOs, addicted to multimillion-dollar incomes and lifestyles that would have made many European royal families in an earlier age blush with shame, continue to rake in fabulous amounts of money, apparently oblivious to the fate of their firms. It goes without saying that the top executives proceed without regard to the conditions of their employees, or former employees, much less society as a whole.

For obvious political reasons, the *Wall Street Journal* is somewhat defensive about the situation. The lead article in its special section devoted to the issue April 14 suggests that corporate boards are flexing their "pay muscles," that directors "are increasingly exercising more clout in setting CEO compensation. And in some cases, the boss is actually feeling a little pain."

Pain is relative. The article cites the case of Charming Shoppes Inc., which recently agreed to a new contract with its CEO, Dorrit Bern. Ms. Bern was obliged to give up $154,760 in annual perquisites, including a Philadelphia apartment and weekend flights to Chicago; she also lost the $1 million signing bonus she had received with previous contracts. Apparently, Ms. Bern was not pleased. Nonetheless, with annual total compensation of more than $5 million, she will probably squeeze by.

The *Journal* proceeds along these general lines, arguing that efforts are being made to slow down the increases in executive pay, while providing figures that hardly bolster their argument.

On the same page as the piece depicting Ms. Bern's situation, the newspaper carried another article: "Persistent Pay Gains," which began: "Chief executives hit the pay jackpot last year—despite signs of a looming economic slowdown." It notes that the median salary and bonus for US CEOs rose 4.7 percent to $2,939,000, according to the Hay Group study of 200 major American firms with annual revenue over $5 billion. Total direct compensation, including stock options and other long-term incentives, rose to a median of $8,848,000.

Journal cites the earnings of 2007's "biggest winners." The John A. Thain, who only took over at Merrill Lynch on December 1, took in compensation of $78.5 million, from restricted shares he received plus stock options. Lloyd Blankfein of investment bank Goldman Sachs made some $68.5 million last year. Occidental Petroleum's Ray Irani, a perennial on the annual list of bloated salaries, received about $61 million. Kenneth Chenault of American Express got $46.2 million, due to options and annual incentive compensation. Rounding off the list of the top five was Richard Fuld of embattled Lehman Brothers, who was paid $40 million, mostly in stock.

Another 22 firms paid their CEOs in excess of $20 million in total compensation in 2007, including United Technologies, Disney, Honeywell, AT&T, Coca-Cola, Bank of New York Mellon, Hewlett Packard, IBM, Johnson & Johnson, Boeing, MetLife, Lockheed Martin, Verizon and Kraft.

Special mention should be made of the case of Jeffery Mezger of KB Home, who received a bonus of $6,000,000 and total compensation of more than $22,000,000, despite the real estate collapse and his own firm's difficulties. KB Home lost $929 million on revenue of $6.4 billion in 2007 and the company's share price had lost two-thirds of its value by November.

The *Times* noted in its April 6 article that Robert Toll of luxury builders Toll Brothers received no bonus in 2007, "but the company has rewritten the compensation plan so that he will probably get one this year even if home building does not recover."

Washington Mutual officials also thoughtfully decided to change the rules in the face of difficulties that might have cost its top executives some income. In February the bank's board changed the design of the company's bonus plan by "de-emphasizing the importance of foreclosure-related write-downs. ... [T]he new plan allows the board to pay bonuses even when non-performing mortgages overwhelm the bank's other businesses."

Washington Mutual announced April 15 that it had suffered a $1.14 billion loss in the first quarter. It plans to cut 3,000 jobs, slash its dividend by 93 percent and raise $7 billion from a group of investors to keep itself afloat.

Wachovia bank announced Monday that it had suffered a first-quarter loss of nearly $400 million, a fourfold increase in troubled loans (to $8.4 billion worth) and a 41 percent cut in its dividend. It also laid off 500 employees in the first quarter. Critics allege that Wachovia executives have raised dividend payments recklessly and made poor acquisitions, paying premium prices for mediocre companies for the past decade. The bank's CEO, G. Kennedy Thompson, was paid $15.8 million in total compensation in 2007, a slight decrease compared with 2006.

© World Socialist Web Site

Alcoa, the world's third-largest aluminum company, reported April 7 that its first-quarter profits had fallen 54 percent over last year because of surging energy costs, a weaker US dollar and lower metals prices. The company's CEO, Alain J. P. Belda, received $13.5 million in compensation last year.

UPS, the delivery giant, saw earnings fall as well in the first quarter, and its share price dropped accordingly. Matthew Eskew, its chief executive, pulled in a mere $5.3 million in 2007. General Electric's Jeffery Immelt made a respectable $13.3 million last year; his company reported a decline of almost 6 percent in first-quarter earnings, prompting serious concerns on Wall Street.

The ERI Economic Research Institute and *Career Journal* reported February 15 that while the revenues of 45 randomly selected public companies had increased by only 2.8 percent over the course of 12 months, executive compensation had jumped by 20.5 percent. They estimated that the average top executive received total compensation of $18.8 million as of February 2008, up from $15.6 million a year earlier.

The spectacle of executives receiving enormous salaries and other forms of pay even as their own firms and the economy as a whole falter creates a certain nervousness in some media and political circles. This is the ugly face of capitalism peering out at the population. The official response takes various forms.

Presidential hopefuls from both major parties have criticized the trend in CEO pay. Barack Obama, Democratic senator from Illinois, pointed out to an audience in Indiana April 11 that "Some CEOs made more in one day than their workers make in one year." The *Wall Street Journal* noted earlier this month, a little bitterly, that Republican John McCain had made a "populist turn," after the Arizona senator termed compensation of failed investment bank Bear Stearns and floundering mortgage lender Countrywide executives "outrageous" and "unconscionable."

This is political posturing, which will have no more impact than the handwringing of certain editorialists in the business and liberal press. And everybody more or less admits it. The op-ed piece from *Fortune* posted on *CNNMoney.com* suggests that "The mammoth pay and disastrous performance of Countrywide Financial's Angelo Mozilo, Citigroup's Chuck Prince, and Merrill Lynch's Stan O'Neal should be enough to make the public furious.

"Each CEO departed with $100-million-plus compensation after misadventures with subprime mortgages. Now add the economic slowdown to the mix; ordinary Americans are worried about making ends meet while failed pooh-bahs rake it in."

Considering all the ingredients, the article goes on to ask, with a presidential election imminent, "how could change not be imminent?"

Bluntly replying to its own question, the column informs the reader: "The answer is that whatever remedies reformers enact, corporate boards can always find a way to pay the boss whatever they like. Over the past 25 years CEO pay has risen regardless of the economic or political climate. It rises faster than corporate profits, economic growth, or average workforce compensation.

"A recent study by the compensation consulting firm DolmatConnell & Partners found that CEO pay in the companies of the Dow Jones industrials increased at a blowout 15.1% annual rate over the past decade."

The *New York Times* April 6 posed a similar question: "Wasn't 2008 supposed to be the year of shareholder victory on the executive compensation front?

"After all, tighter disclosure rules kicked in last year, and—the theory went—once companies had to shine a spotlight on their compensation practices, they were bound to make them better. Politicians, never loath to acknowledge the national mood—particularly in an election year—held several hearings about excessive pay. But signs of sweeping change remain few."

Or change of any significant kind. 'Shareholder activism,' the occasional grandstanding by the politicians and media complaints have not slowed corporate compensation or reduced the chasm of social inequality. On the contrary, the most recent figures indicate that the super-rich are accumulating wealth faster than ever.

Economists Emmanuel Saez of the University of California, Berkeley, and Thomas Piketty of the Paris School of Economics, recently reported their findings for the year 2006. They discovered that average incomes of the highest-earning 1 percent grew 11 percent year-over-year between 2002 and 2006, whereas the bottom *99 percent* saw their incomes grow on average just 0.9 percent annually.

The Institute for Policy Studies noted last autumn that the average American CEO from a Fortune 500 company earned 364 times an average worker's pay. The IPS further commented: "Last year, the top 20 earners in the most lucrative corner of America's business sector, the private equity and hedge fund world, pocketed 680 times more in rewards for their labors than the nation's 20 highest-paid leaders of nonprofit institutions pocketed for theirs—and 3,315 times more than the top 20 officials of the federal executive branch, an august group that includes the President of the United States."

Consider the case of billionaire Larry Ellison of software giant Oracle, renowned for his conspicuous consumption. A University of Chicago economist has calculated that Ellison cannot spend enough on personal consumption to prevent his fortune from growing. The economist, Austan Goolsbee, estimates that the Oracle chief would have to spend over "$183,000 an hour on things that can't be resold, like parties or meals, just to avoid increasing his wealth."

None of this is going unnoticed by the population. A recent Pew Research Group poll found that fewer Americans now than at any time in the past half century believe they're moving forward in life and that working or middle class Americans, who have endured relative economic decline (but progress in absolute terms) for decades, have made no economic progress of any kind since 1999.

Every serious attempt to discourage the ruling elite from plundering the national economy will fail. A certain social physiognomy has been created by the decades of parasitism, swindling and accumulation of vast piles of wealth. These people do not intend to give a penny back, or restrain themselves in any fashion.

Many historians of the French Revolution refer to 'the resistance of the privileged classes,' their short-sighted determination to thwart social and fiscal reform at all costs, as a political factor of some significance in the eventual eruption of the epoch-making events of 1789.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site