US: CEO pay sets new record as economy tanks

Andre Damon
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Average CEO compensation grew by 3.5 percent last year despite slowing economic growth, falling profits and mass layoffs, according to an Associated Press review published Monday. The review found that the S&P 500 CEO received an average yearly compensation of $8.4 million, up $280,000 (an average raise that is the equivalent of six times the US median household income) during 2006.

The data render ridiculous those apologies for social inequality resting on the idea that CEO pay is linked to ‘performance’ in some meaningful way. The Associated Press review found that “CEO pay rose or fell regardless of the direction of a company’s stock price or profits.” The report also notes that half of the 10 best paid CEOs—who collectively hauled in half a billion dollars last year—presided over companies whose profits shrank “dramatically.”

The Associated Press reviewed disclosures filed by 410 of the 500 largest US firms. The top 10 earners included the heads of four financial firms, four energy/commodities firms, as well as the heads of the retailer GAP and entertainment conglomerate CBS.

John Thain, the CEO of Merrill Lynch, ranks first on the list. He received $83 million in compensation for the year, despite presiding over a company that posted a $9.8 billion loss in the fourth quarter. He replaced former CEO Stanley O’Neal on December 1, 2007. O’Neal left the bank with a compensation package worth over $161 million, despite his direct oversight of the bank’s gambling with mortgage-backed securities that ultimately exploded in 2006-2007.

Likewise, John Mack of Morgan Stanley, also in the top 10, received a compensation package worth $41.7 million, even though his firm announced the writing down of $9.8 billion worth of loans and a loss of $3.61 billion in the fourth quarter.

The housing bubble and the worldwide financial crisis it has created were fueled by people like Mack and Thain, as well as the enormously wealthy shareholders they represent.

In good times, financial executive compensation has been tied to increases in stock value and short-term asset performance. But it does not seem to track the downward spiral as these measures fall. In recent years, financial executives have swelled their bonuses by buying up huge tracts of “mystery-meat” securities with high yields and intentionally miscalculated risk.

This reporter recently attended a lecture by David Hartzell, a former vice-president of Salomon Brothers, who played a role in the development of the mortgage-backed securities that were instrumental in creating the current crisis. He noted that by repackaging bad mortgages as high quality securities, his firm could generate previously unimaginable profits. “When we first discovered this, it was like somebody turned on the cash spigot,” Hartzell said. Naturally, a great deal of this cash made it into executives’ pockets.

The latest figures have already evoked calls from sections of the business press for greater corporate oversight of CEO activities and compensation. Much of this comes in the form of “shareholder activism,” as if the biggest shareholders did not approve the policies implemented by financial CEOs when they sent stock prices and dividends soaring.

Questions along these lines were raised at Hartzell’s speech at the University of Delaware. The dean of the university’s business college observed, “In accounting 101 we learn that high yields equal high risk. We know the CEOs had an incentive to disregard this because they were getting huge bonuses. But why didn’t the shareholders say anything?”

Hartzell did not have a ready answer, but it does not take much soul-searching to find one. The wealthy shareholders—those with real voting power—were perfectly happy to see the financial firms' profits and stock prices skyrocket, even at the expense of long-term stability, and to give top executives tens of millions for making this happen.

Looking at the AP compensation report, one is struck by the apparent correlation between a CEO's pay and the amount of social harm his or her company inflicts. The bankers who triggered a worldwide financial crisis got the biggest bonuses. Then we have the energy executives, whose compensation shot up some 32 percent last year as gas prices breached $4 per gallon, sharply reducing the real incomes of millions of working people.

Bob Simpson of XTO Energy took home $50 million in compensation in 2007, ranking him at number four this year. Other energy executives on the list included Eugene Isenberg of Nabors Industries and Ray Irani of Occidental Petroleum, who took home $44 million and $34 million respectively.

Other bonus hikes went to executives who succeeded in destroying jobs and driving down wages. Rick Wagoner of General Motors received a compensation package of $15.7 million, up 60 percent from the previous year, despite presiding over a company that posted a $39 billion loss in 2007. He was, however, successful in scrapping GM's healthcare obligations to workers and pushing through plant closures.

And what have been the social consequences of all this? Who has paid the cost of this enrichment of a tiny layer at the top of the social ladder? According to the latest estimates, one in twenty Americans will soon have negative equity in their homes, and millions already face foreclosure. Energy prices have shot up by 17 percent in the past year alone. Real wages have fallen by about 1 percent during the same period, with far steeper declines threatened.