

Australian government tinkers with CEO pay

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In a bid to divert public anger over multi-million dollar salaries and retirement payouts for corporate chief executives, the Rudd government last month announced it would amend the Corporations Act to allow shareholders to cap the golden handshakes awarded to departing CEOs.

Federal Treasurer Wayne Swan said the community was “rightly offended” by the excessive bonuses, saying they had become “more common and in some cases more obscene” and “[s]ome termination payments have borne no relationship whatever to the performance of the company”.

According to research by RiskMetrics, the average CEO of a top 100 Australian company walked away with around \$3.4 million in termination payments in 2007. Even that figure, however, is dwarfed by the \$8.35 million handed to Owen Hegarty of OZ Minerals, the \$15 million to John Alexander of Consolidated Media and the \$16.8 million to Santos boss John Ellice-Flint. When David Murray retired as Commonwealth Bank of Australia chief in 2005, he received about \$17 million, and on top of that, had accumulated 495,545 CBA shares, then worth \$23 million.

Such payouts, however, are not some “excessive” deviation from otherwise reasonable corporate arrangements as Swan and Prime Minister Kevin Rudd have claimed. They are the result of the very same profit system that the Labor government is trying to prop up with multi-billion dollar stimulus packages.

The remuneration packages offered to CEOs are bound up with the increasingly speculative and parasitic character of global capitalism. Top dollar is paid to attract executives with a proven record of cost-cutting, who will do anything, including ruthless restructuring, asset stripping and massive downsizing, to generate rapid returns to investors regardless of the social costs.

Take, for example, Telstra CEO Sol Trujillo, who will collect an estimated \$20 million in severance pay and other benefits when he quits the company on June 30. His base annual salary was \$3 million but “performance bonuses” swelled this to \$13.4 million. His performance included axing over 10,000 jobs and presiding over a plunge in Telstra’s share price from just over \$5, when he took over the newly privatised company in 2005, to around \$3.

Trujillo will depart before the new laws take effect, but in any case the government’s changes are designed to ensure that huge executive payments remain the order of the day. Retirement payouts above one year of base salary will simply have to be referred to shareholders for approval. The proposed cap will not apply to current contract arrangements. Nor will there be any restrictions on the amounts paid to CEOs as base salaries or other perks such as bonuses and share options.

Even if shareholders—who are overwhelmingly giant financial institutions themselves—were to enforce the new cap, retiring executives could walk away with considerable sums amassed from salary and share option packages. In many CEO contracts, the base salary is only a fraction of the remuneration package. Recently retired Macquarie Bank CEO Alan Moss’s base annual salary was \$670,819 but with bonuses and share options he received \$33 million a year, or 747 times the average wage of a worker.

No doubt other ways will be found to ensure that CEO departure payments remain lucrative. Yolande Foord, who specialises in executive remuneration at Mercer, which advises corporations on human resources, tipped that companies would try to beat the legislation “by offering higher base pay”. She added: “Companies would always find ways around the rules.”

By contrast, increasing numbers of workers are being

robbed of their entitlements as companies go into liquidation owing millions of dollars. Last year, the federal government scheme set up to partly compensate workers for unpaid entitlements distributed \$60.8 million to around 7,800 workers—an average of under just \$8,000 each. In the second half of 2008, the number of claims went up 35 percent, compared to the same time in 2007, and in the three months to December, the number of claims jumped by 65 percent on the year before.

The government's feigned outrage over executive pay is calculated to create the impression that everyone—from corporate chiefs to ordinary workers—is being asked to “sacrifice” in the hope of sparking an economic recovery. While tinkering with CEO payouts, the government is fully backing the “right” of companies, such as Pacific Brands, BHP Billiton and Rio Tinto, to axe thousands of jobs, and stepping up calls for workers to accept cuts in working hours and wages.

In another effort to head off outrage over blatant double standards, Corporate Law Minister Nick Sherry announced that the Productivity Commission would investigate executive remuneration. The enquiry will not bring down a report for nine months, by which time the government hopes the CEO pay issue will have faded from public attention.

Professor Allan Fels, who was appointed to assist the inquiry, was anxious to assure the financial aristocracy that it would do nothing to impinge on the legal capacity of corporate chiefs to amass personal fortunes. He told the media that the inquiry would point to “some desirable principles and criteria” to give institutional shareholders “some guidance” in voting on pay packages.

Fels's reassurance was not enough to prevent a flood of criticism from business circles angered by the very suggestion that executives should be subject to any kind of restraint. Australian Institute of Company Directors chief executive John Colvin warned: “Acting in haste or going too far with legislative solutions could be counter-productive”. Michael Robinson, director of remuneration and governance consultancy Guerdon Associates, declared that any interference with executive remuneration was a potential “disaster in the making”.

A real disaster is already unfolding—the destruction of

the livelihoods of millions of ordinary people as a direct result of the operations of the profit system. Robinson's implied threat that even worse would result if CEO remuneration was in any way affected only demonstrates that the corporate elite's control over economic and political life is a barrier to any rational solution to the economic crisis.



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