Wall Street Journal report: US executive perks “flourished” in 2008

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According to data published in the *Wall Street Journal* Friday, the median salaries and bonuses of America's top 200 chief executive officers fell by 8.5 percent in 2008, to $2.24 million, and total direct compensation declined 3.4 percent, to $7.56 million. The decline was the first in seven years and only the second since the newspaper began tracking CEO pay in 1989.

This dip occurred in a year in which the global financial system was shipwrecked and the US economy suffered a net loss of 2.6 million jobs. The Federal Reserve reported March 12 that American households lost 9 percent of their wealth in the last three months of 2008 alone, and 18 percent for the year as a whole. Housing prices are down some 30 percent from their high point in 2005.

Few will feel personal sympathy for the chief executives in question, much less concern for their financial well-being. Individually their annual compensation remained some 250 times the income of an average US worker. In fact, these executives made approximately as much in one business day as the average worker earns in 12 months.

Executives in the health care industry led the way, with average compensation of $12.45 million, followed by technology CEOs at $8.83 million, those in consumer goods at $8.73 million, in oil and gas at $8.17 million and financial firm executives at $7.60 million.

The *Journal* observes that despite growing public anger and supposedly stricter regulation of executive pay, "The protests and rules had limited impact. Equity grants, which account for roughly two-thirds of CEO compensation, changed little from 2007." The newspaper notes that while many companies are reporting plans to cut executive income, and a considerable public relations campaign is under way, "For some CEOs, executive perks flourished, despite searing criticism."

The largest compensation package in 2008 went to Sanjay Jha, new co-CEO of Motorola, who was "lured" from Qualcomm, where he served as chief operating officer, for equity valued at $103.5 million. The package includes restricted stock and stock options. The *Journal* points out, however, that the value "of the equity was based on the day of the grant," last summer, and that currently his stock options are "under water."

A good many of the chief executives find themselves in this position. This helps explain some of the ferocious cheerleading by the companies, the financial media and the Obama administration aimed at driving up the stock market. Billions and billions in personal wealth are at stake. A sharp upturn in the market can only be achieved at the direct expense of the wages and living standards of the working population.

Second to Jha in 2008 was Occidental Petroleum Corporation CEO Ray Irani, a perennial on such lists. He recorded direct compensation of $49.9 million and "also received more than $200 million last year from long-term incentive awards and by exercising stock options granted in prior years."

Disney CEO Robert Iger enjoyed direct total compensation of $49.7 million last year. "More than half of that stemmed from 3 million stock options Mr. Iger was granted in January 2008 as part of a contract extension," notes the *Journal*. In January 2008, of course, Iger was playing a leading role in the resistance of the giant film studios and television networks to the "unreasonable" demands of 10,500 striking writers.

Citigroup chief executive Vikram S. Pandit stands to gain a great deal if the banking firm's stock revives. He received 3 million stock options and almost 1.1 million shares of restricted stock in January 2008 as a "signing bonus." At the time, the equity granted him was valued at $37.2 million. As of Thursday, his stock options were also "under water," and his restricted stock was worth some $3 million.

The list goes on. Sixty-seven of the 200 CEOs had compensation packages worth, or potentially worth, more than $10 million. The head of American Express, Kenneth Chenault, was scheduled to earn $28.6 million; James Dimon of JPMorgan Chase, $20.9 million; Samuel J. Palmisano of IBM, $19.5 million; Richard T. Clark of

Merck, $17.2 million.

Navistar's Daniel C. Ustian, was the "biggest gainer in percentage terms"—his compensation increased nearly 500 percent to $6.5 million. The total compensation of Donald J. Tomnitz of D.R. Horton, the largest homebuilder in the US, more than tripled to $5.9 million last year, despite the firm's staggering loss in fiscal 2008 of $2.6 billion.

The *Journal* pours cold water on the claims of some CEOs to be "sacrificing" in the face of declining profits. It notes that James M. Bernhard Jr., the longtime CEO of Shaw Group Inc., saw his bonus decline 87.5 percent, to $264,000, "as the engineering and construction company missed certain financial targets. Mr. Bernhard also asked directors not to pay the discretionary portion of his bonus."

However, shortly after the firm's fiscal year ended August 31, "directors boosted the value of Mr. Bernhard's equity grant for this fiscal year to about $6.7 million, up from $4.7 million in fiscal 2008.... In all, Mr. Bernhard owns shares and vested options now valued at roughly $17 million, and had accumulated deferred compensation of about $18 million as of Aug. 31, 2008."

Although executives from financial firms experienced a relative decline in their positioning among the most highly paid CEOs in the US, the generally parasitic nature of American business life continued to make itself felt in 2008. Out of the 30 most highly compensated US executives, only four came from "industrials," and they all worked for major defense contractors (United Technologies, Lockheed Martin, General Dynamics and Boeing).

Six of the best-paid CEOs were still in "financials," five each worked for health care and technology firms, three each in "consumer services" and oil and gas, two in "consumer goods," while one of the top 30 toiled at a utility (power company Calpine) and another in telecommunications (Verizon).

The corporate aristocrats may have lost some ground due to the financial meltdown, but that did not make them stop demanding privileges. Dana Holding Corp., the Toledo, Ohio-based auto parts maker, spent $2.3 million last year on chartered planes "to fly its chairman and chief executive, John M. Devine, and its vice chairman and former CEO, Gary L. Convis, to and from their California homes." Dana, which emerged from bankruptcy in 2008, recently announced a plan to eliminate 5,800 jobs by the end of 2009.

David Wise, of Hay Group, the firm commissioned by the *Journal* to conduct its survey of CEO pay, commented mildly about executive benefits, "When push comes to shove, companies didn't make as many changes to these programs last year as shareholders would like." In 2008, 104 of the 200 largest US corporations covered the cost of personal air travel for their CEOs, down from 107 in 2007.

Reimbursing top executives for taxes owed on employer-paid "perks" and other benefits, the so-called "gross-up," is another favorite means of enriching the already terribly rich. "In the *Journal* survey, 76 companies disclosed some form of gross-up for chief executives, down from 77 in 2007." Leading the way was oil-field services provider BJ Services Co., which reimbursed chief executive J.W. Stewart $718,800 for the taxes on his bonus and equity awards.

Other miscellaneous items gleaned from the *Journal* survey: "Ferro Corp., a Cleveland maker of industrial coatings, reimbursed CEO James F. Kirsch for a $100,000 initiation fee at the Pepper Pike Country Club," while "Robert A. Young, the chairman and former CEO of shipping services company Arkansas Best Corp., received perks valued at $58,449 last year, including an undisclosed amount for personal use of the company's hunting lodge."

How many of the firms surveyed by the *Journal* laid off workers, cut salaries or slashed benefits last year? How many lives and communities were damaged or ruined by their practices?

A detailed survey will have to wait, but one could point to these details:

*Citigroup announced in November that it planned to cut 52,000 jobs by early 2009.

*When Motorola's cuts are complete this year, the company will have eliminated 12,000 workers since December 2007, 18 percent of its workforce. Two Motorola officials (Jha and Gregory Brown) made the top ten of most highly paid corporate executives in 2008, accumulating a total of nearly $130 million between them.

*In early March, United Technologies CEO Louis Chenevert announced 11,600 layoffs for 2009 because of a deteriorating market for aerospace and construction. Chenevert was 14 on the *Journal* survey list with $20 million in total compensation last year.

*Hewlett Packard's CEO Mark Hurd brought in more than $20 million, and is planning to destroy 24,500 jobs over the next 3 years.

*Pfizer's head, Jeffrey Kindler, had a compensation package worth $16.6 million; his firm will eliminate 8,000 jobs by the end of 2011.

*Alcoa carried out 15,200 layoffs in 2008, while its CEO, Klaus Kleinfeld, enjoyed total income of $8.2 million.