US CEO compensation up by 30 percent

Andre Damon
19 March 2011

Bonuses for top executives grew 30 percent between 2009 and 2010, according to a survey of 50 major corporations conducted by the Hay Group, a consulting firm, for the *Wall Street Journal*. The figure suggests that the pay for executives probably hit record levels in 2010.

"Bonuses didn't go down very sharply during the crisis, so a 30 percent increase would likely indicate that they have recovered over pre-crash levels," said Paul Hodgson of the corporate research firm GovernanceMetrics International in a telephone interview with the WSWS. Pay for executives at the largest US corporations fell by only 6 percent in 2009, compared to 2000-2005, according to data compiled by the Institute for Policy Studies.

Topping the list in CEO bonus pay was Robert A. Iger of Walt Disney Co., who received $13.5 million in the year ending on October 3, 2010, up from $7.4 billion the previous year. Howard Schultz, CEO of Starbucks, the coffee shop chain, got a $3.5 million bonus over the same period, up from $1 million the year before.

Total executive pay for the companies surveyed in the study jumped from $83 million in 2009 to $126.1 million in 2010. The study was based on a review of year-end statements filed with the Securities Exchange Commission (SEC) by companies with more than $4 billion in annual revenue.

The same day that the *Wall Street Journal* reported these findings, the Federal Reserve said it would eliminate dividend payment restrictions on 19 banks that received capital injections from the US government during the 2008 financial crisis.

Banks immediately responded by announcing dividend payments and stock buybacks, sending share prices up sharply. JPMorgan Chase said that it would increase its dividend fivefold, to 25 cents per share, and that its board had authorized a $15 billion share buyback program.

The Federal Reserve made its announcement after an official review of banks' balance sheets, which have been reflated by the growing bubbles in the stock market. Stocks are up by over 70 percent from their low in 2008, and commodity prices are up by at least a quarter over the past year.

While the banks' wealthy shareholders are no doubt clamoring to receive dividend payments, some of the biggest beneficiaries will be companies' own executives, many of whom amassed tens of millions of dollars in shares in the run-up to the 2008 crisis.

"Most of the executives of the major banks are pretty replete with stocks, said Hodgson. "Any resumption of dividend payments will benefit them directly."

He noted Jamie Dimon, the head of JPMorgan Chase, who according to a *New York Times* analysis may receive $6 million per year from dividend payments, on top of his salary, benefits and other perks, which added up to $18.4 million in 2010.

Dimon received millions of dollars in shares from 2000 to 2006, the very period when he and his colleagues were laying the groundwork for the financial crisis to come. In 2006 alone, he garnered $41.2 million in compensation, partly in the form of shares.

Hodgson also named Lloyd Blankfein, chief executive of Goldman Sachs, as standing to benefit from the resumption of dividend payments. Blankfein received $67.9 million in compensation in 2007, much of which he keeps in Goldman stock.

He stands to gain millions on top of his standard compensation package from the resumption of dividend payments. The company said in January that it would triple Blankfein's yearly stock bonus in 2010, giving him $12.6 million in stock, on top of $2 million in pay.

Hodgson said that, despite the fact that dividend payments inflate the incomes of executives with large holdings of stock, they are not listed alongside their other compensation on year-end statements. “It’s impossible for executives not to consider the resultant effect on their income of announcing a dividend,” he said.

Financial company dividend payments dropped sharply as a result of the 2008 financial crisis, largely because companies found themselves strapped for cash as their asset values plummeted. The US government required banks that had received capital from Washington to put limits on their dividends, in the name of making sure that they were adequately capitalized to weather another financial crisis.

The Federal Reserve announced that it was ending restrictions on dividend payments on the banks after conducting a series of “stress tests,” which supposedly determined what would happen in the event of a recession with an up to 11 percent unemployment rate and a drop in value for riskier assets.

There is no reason to assume that these latest “stress tests” have any more validity than the assurances given by the government in the run-up to the crisis that the banking system was healthy.

The caps on dividend payments were among the last of the emergency restrictions imposed on the banks during the financial meltdown. Their removal presents banks with yet another green light to revert to the type of fraud, speculation and swindling—in the form of massive executive compensation schemes—that led to the crash.