

\$3 billion stock option bonanza for American CEOs

Tom Eley
4 May 2011

CEOs of the largest American corporations are raking in tens of millions of dollars in stock market gains, the result of stock option handouts in 2009, when stock prices were at about half their current level.

According to an April 26 analysis by the *Wall Street Journal*, CEO stock equity among corporations listed on Standard & Poor's 500 index has increased by over \$3 billion since September 30, 2009. The report was published a month after a study by the Harris Group consulting firm showed that CEO pay increased 30 percent from 2009 to 2010, likely reaching a record high. (See: "US CEO compensation up by 30 percent")

Following the Wall Street crash of September 2008, the Bush and Obama administrations promoted the notion that awarding a larger portion of executive compensation in the form of stock options, rather than cash salaries and bonuses, would represent a "reform" of executive pay. It would, they said, rein in the excesses of the past and tie executive compensation more directly to corporate performance.

It was also claimed that the change would give the corporate chiefs a financial incentive to expand production and hire workers.

This supposed reform was for the most part embraced by Wall Street and the corporate elite as a whole. And for good reason.

By March of 2009, Obama had made crystal clear to the financial elite that it would not only suffer no negative consequences from the fraud and criminality that had precipitated the financial meltdown, but it would instead end up profiting handsomely from the crisis. No one would be held accountable for turning the financial system into a gigantic Ponzi scheme, and the government would concentrate its energies on making the American people pay off the bad debts of the bankers.

th of that month, the Dow Jones Industrial Average fell to 6,547, its lowest level in absolute terms since 1996. In the course of the same month, the Obama administration rejected calls from some quarters for crippled banking giants such as Citigroup and Bank of America to be nationalized, opposed demands that bailed-out banks account for their use of public funds, intervened to block legislation in Congress limiting executive pay at companies receiving taxpayer dollars, and rejected the recovery plans submitted by General Motors and Chrysler, demanding more sweeping layoffs and more severe cuts in auto workers' wages and benefits.

Together with the Federal Reserve's policy of virtually free credit for major banks and corporations, the administration's pro-corporate policies heralded a massive run-up of stock prices. This made the supposed "reform" of executive pay in the form of expanded stock options an almost sure-fire means of driving CEO compensation higher than ever.

The banks were under absolutely no obligation to increase their lending to businesses and consumers, and the corporations were not required to hire a single worker. They could use the windfall made possible by the government to build up their cash hoards and fatten the bank accounts and stock portfolios of their top executives.

This is precisely what they have done. On the one side, CEOs and the wealthiest shareholders are richer than ever. On the other, mass unemployment is accepted as a permanent feature of American life, the assault on workers' wages and benefits continues unabated, and social spending is being cut to the bone to shield the rich from paying taxes on their gains.

At the same time, the Fed's cheap dollar policy has fueled a global binge in speculation that has sent gas

and food prices through the roof.

The CEOs who took a bigger chunk of their compensation in the form of stock options when the market was at its nadir have made a killing. As one expert on executive pay told the *Journal*, “instead of limiting pay, we’ve turbocharged it.”

Ford CEO Alan Mulally has gained the most through the surge in stock values. A \$16 million package of stock options given to him in March 2009 is now valued at over \$200 million.

Other CEOs who have seen their portfolios increase by more than \$30 million are Michael Jeffries of clothing retailer Abercrombie and Fitch (\$150 million), Eugene Isenberg of oil and gas driller Nabors Industries (\$96 million), Howard Shultz of Starbucks (\$63.5 million), Frits van Paasschen of Starwood Hotels and Resorts Worldwide (\$51 million), James Owens of Caterpillar (\$43.5 million), Lawrence Ellison of Oracle (\$35.5 million), Richard D. Fairbank of Capital One (\$34.5 million), and Andrew Liveris of Dow Chemical (\$34 million).

These fortunes are not derived from generating “growth,” but from destroying jobs, slashing wages, and, in many cases, cutting production. Among the companies listed above, Starbucks has shed 39,000 jobs since the recession began and closed scores of its shops; Caterpillar has laid off 20,000 workers, and this March, with the aid of the United Auto Workers union, imposed massive wage and benefits cuts on its workforce; Abercrombie and Fitch laid off 10 percent of its corporate staff in 2009 and in 2010 announced the closure of 170 stores.

Not accidentally, two of the executives who have pocketed the most cash through growth in stock values are the CEOs of corporations “organized” by the United Auto Workers—Mulally at Ford and Owens at Caterpillar.



To contact the WSWs and the
Socialist Equality Party visit:

wsws.org/contact