Illinois and Indiana CEO pay rises sharply in 2010

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Recent surveys released last month show that the pay packages of chief executives in Illinois and northwest Indiana sharply rose in 2010 to pre-recession levels or higher.

The *Chicago Tribune* reported data from Equilar Inc., an executive compensation data firm, which compiled CEO pay packages of the 100 largest companies in Illinois and northwest Indiana, based on their market capitalization levels reported as of March 31. The data ranked CEOs by levels of total compensation—including cash pay (salary pay bonuses), the value of stocks and options, and other benefits and perks such as deferred compensation and changes in pension values.

Average compensation for executives at the region's top 100 publicly traded companies in 2010 was found to have risen to $6.6 million, a dramatic increase of 24.5 percent from the previous year. Median compensation rose to $5.2 million, a staggering increase of 43.6 percent.

In 2009, the region's top executives also saw a pay increase, albeit at a relatively lower rate. The average compensation in 2009 rose 10.1 percent from the previous year, while the median rose 20.6 percent.

The biggest 2010 payout was given to the former CEO of General Growth Properties Inc., Adam Metz. He received a total compensation payout of an astounding $49.7 million in 2010. Metz was an independent director of a Chicago-based mall corporation since 2005 before he was given the executive position at General Growth in October 2008.

In April 2009, the company filed Chapter 11 bankruptcy, as the housing market continued to collapse, and emerged out of it in November 2010. A month later, Metz left the position and joined private equity giant TPG as a senior advisor. According to the company's shareholder proxy filed in March, he received the lucrative payout based on recovered funds from creditors and shareholders. By comparison, Metz's pay was $4.9 million at General Growth in 2009.

Metz's pay also eclipsed the second-ranked executive according to compensation, Miles White of Abbott Laboratories, who was given a payout of $26.6 million even as Abbott's net income shrank 19.3 percent to $4.63 billion. Metz's payout was also 89 percent greater than 2009's top earner, Kraft Food Inc.'s Irene Rosefeld.

A separate report by *Crain's Chicago Business* noted that Chicago CEOs saw their median salary increase to $3.3 million last year, 32 percent higher than the median salary of $2.5 million in 2009. *Crain's* research was compiled by Buck Consultant LLC, which surveyed 130 Chicago companies.

At the same time as Chicago area executives saw sharply rising pay increases, Chicago-area private-sector workers received a relatively flat 2.7 percent pay raise in 2010—not enough to offset the rising costs of gas, food and other commodities in the area.

The area's biggest pay raises in 2010 were given to Aon Corp.'s Gregory Case, John Deere & Co.'s Samuel Allen and Sanjay Jha of Motorola Mobility Inc. After two years of a pay scale holding at $10.4 million, Case's compensation at the Chicago-based insurance brokerage firm doubled to $20.8 million in 2010.

James Owens stepped down as the CEO for Peoria-based Caterpillar Inc. last July, but still received a hefty payout from the board of directors to the tune of $22.5 million. Owens' successor, Doug Oberhelman, saw his compensation triple to $10.6 million in 2010.

Samuel Allen of John Deere, the Moline-based maker of agricultural equipment, got a 51 percent raise, bringing his base salary alone to $1.2 million. Deere's stock climbed by 54 percent in 2010, although the three-year shareholder return slipped by 4.8 percent.

The huge pay increases for Illinois and northwest Indiana CEOs in 2010 were purportedly tied to their performances, along with the rise in stock market values and the so-called economic "recovery."

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However, the rate of compensation is far out of proportion to stock growth. The nearly 25 percent average raise in pay for CEOs in the region greatly exceeded the surge in the Standard & Poor's 500 stock index, which rose by 15 percent in 2010. Revenues for S&P 500 firms rose only by 7 percent last year, even though their profits rose by more than 47 percent.

The rise in corporate profits has largely come from cost-cutting, wage cuts and drastic increases in worker productivity—which grew by 6 percent nationally in 2010, following previous annual increases. Higher levels of production, job growth and labor force participation rates that normally correspond with an economic recovery are entirely absent in this picture. The devastating effects of the global recession on working people have not been seriously offset by the economic "recovery," nationally or in the Midwest.

The region's CEOs are being rewarded at the expense of workers suffering the effects of economic stagnation and impoverishment. The official unemployment rate of 8.6 percent in Illinois is at least 2 percentage points higher than it was in 2007—and more than double what it was in 2000.

According to a February report by the *Illinois Labor Market Review*, Illinois never recovered all the jobs it lost as a result of the 2001 recession, unlike other parts of the country. Indeed, as CEO pay has been soaring to pre-recession levels or higher, job growth in Illinois has remained sluggish and never recovered to the levels it was a decade ago. Between 2000 and 2009, Illinois saw total non-farm employment fall by 6.4 percent, with most of the job losses occurring during the 2007-2009 recession.

Additionally, Illinois' labor force participation rate of eligible workers dropped from 69.8 percent in 2000 to 66.8 percent in 2009. The rate also dropped significantly in every major age group.

Young people aged 16 to 19 saw the sharpest drop, from 54.3 percent in 2000 to 37.1 percent. At the same time, official unemployment rates for that age group saw a massive rise from 11.9 percent to 25.8 percent. High school dropout rates have also increased in tandem. Those between the ages of 20 and 24 saw the second largest drop in labor force participation rates, between 79.5 percent and 71.4 percent. Other age groups saw similar drops in participation rates, and nearly every age group has seen its unemployment rates more than doubled in the last decade.

The pay hikes for Illinois' top companies have continued despite measures implemented by the Dodd-Frank Wall Street Reform and Consumer Protection Act, which mandates that companies now insert certain provisions into their company's shareholder proxies to curtail executive compensation. These provisions have been touted as providing more transparency and shareholder "say-on-pay" votes for executive compensation based on company performance every three years.

The reform is essentially toothless, however. Major investors—institutions such as mutual funds and pension funds that hold more than half the shares—dominate the shareholders and are very friendly to the prospects of CEO largess. They show little interest in playing the watchdog to these executives, as many of them are executives and managers of large firms as well.

Shareholder democracy for small investors is largely a chimera. The unyielding dictatorial hands of the biggest players of finance capital remain in place, despite the lip-service given by proxy provisions to transparency and democracy. Indeed, while President Obama has touted "say on pay" as a significant advance in curtailing Wall Street, an analysis by the *Institute for Policy Studies* found that firms in the UK using "say on pay" since 2002 have overseen ballooning executive compensation packages in the midst of recession.

Following the Enron collapse in the early part of the last decade, Congress passed the Sarbanes-Oxley Act to prevent executives from abusing compensation that was being given in the form of stock options. Such regulative measures have largely been passed by the government with a wink and a nod to those purportedly being regulated. As the Crash of 2008 demonstrated, generous loopholes, along with outright indifference by the corporate elite to such measures, ensured that no serious enforcement would come of the legislation.

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