GlobalResearch
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CEOs “cashed out” prior to economic crisis

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Global Research, December 01, 2008
World Socialist Web Site 28 November 2008

Region: USA
Theme: Global Economy

Balzac’s maxim that “behind every great fortune lies a great crime” may yet prove a fitting epitaph for American capitalism. A recent survey by the Wall Street Journal reveals that CEOs at major US financial and real estate firms converted tens of millions of dollars of overvalued stock into cash prior to the eruption of the current financial crisis, even as many of their corporations approached the precipice.

The Journal analyzed the fortunes of CEOs from 2003 to 2007 based on executive compensation and stock sale data. Fifteen of these CEOs took home more than $100 million in cash during this period. At the high end was Charles Schwab, who made over $816 million from his self-named accounting firm, almost all of it from stock sales.

Of the 120 publicly traded firms the Journal analyzed, CEOs cashed out a total of more than $21 billion. However, data was gathered only from publicly traded companies, and thus does not include similar fortunes that have been made by “hedge fund chiefs, Wall Street traders, and executives who sold their companies outright.” Nor did it include data related to exit packages, the multimillion-dollar “golden parachutes” awarded to retiring or fired executives.

The Journal’s findings underscore the parasitism and criminality of the US financial elite. Defenders have long justified extravagant CEO pay by claiming that these were the talented “risk-takers” who generated enormous wealth for investors. But the Journal’s data shows that there is no correlation between compensation and a firm’s success. On the contrary, many CEOs rewarded themselves just as their corporations approached ruin.

These included Richard Fuld, the CEO of Lehman Brothers, who transformed his firm’s stock into well over $100 million in cash. When added to his salary and bonuses, Fuld pocketed nearly $185 million in the five years before 2008, even as he guided his 150-year-old investment bank to ruin. James Cayne of Bear Stearns did nearly as well at his investment bank, collecting over $163.2 million, the vast majority of which was garnered from selling stock that would soon be scarcely worth the paper upon which it was printed.

Maurice Greenberg of American International Group (AIG) made $132.8 million between 2003 and 2005, when he was forced to resign. Well over $100 million of this came from windfall stock sales of the giant insurer. AIG collapsed in September, but was determined to be “too big to fail” by the federal government, and was bailed out twice in less than one month to the tune of some $120 billion.

In August, the sub-prime mortgage giant Countrywide Financial Group collapsed spectacularly, and was absorbed by Bank of America. In the previous five years, however, Countrywide’s CEO, Angelo Mozilo, took home $471 million, over $400 million of which came from sales of the company’s soon-to-be-worthless stock.

A look at the sectors of the economy where these richly remunerated executives worked, moreover, demonstrates the advanced rot of the US economy as a whole. Without exception, they represented corporations that engaged in financial speculation—“industries closely tied to the financial crisis,” as the Journal puts it—and that produced no real value. These until recently “vibrant” parts of the economy functioned only to siphon off enormous social wealth and deposit it in the bank accounts of the CEOs and big investors.

One example the Journal considered is the private student loan sector, which made Daniel Meyers, the CEO of a firm called First Marblehead, a very wealthy man. Marblehead specialized in servicing loans to students who had “exhausted the cheaper government-backed variety,” and then repackaging and selling the debt to big banks such as Bank of America. Meyers earned nearly $100 million, almost all of it in the sale of company stock; together with other Marblehead insiders, $660 million was taken. The Journal notes that Meyers used $10.3 million of his fortune to buy an ocean-front property in Rhode Island—the state with the highest unemployment rate. Meyers tore down the villa that was there and has put up a 38,000-square-foot mansion he named, befitting a pirate, “Seaward.”

Another sector of the economy that has proved highly lucrative for CEOs is that of home mortgages. In addition to the aforementioned case of Angelo Mozilo and Countrywide, the Journal highlights the case of New Century Financial, the nation’s second largest subprime lender. While the lender is now bankrupt, over a period of four years its three leading executives took home a combined $74 million. The Journal also mentions the case of Herbert and Marion Sandler, who made $2 billion off selling their mortgage firm, Golden West Financial Corp., to Wachovia in 2005. This purchase likely contributed to the demise of Wachovia, which collapsed in October and was bought out by Wells Fargo.

In the field of “credit-default swaps,” Michael Gooch made $82.5 million through his firm GTI Group. Over $77 million of this came from a remarkably well-timed sale in May of 2006. Since then, GTI’s stock has lost over 90 percent of its value. Gooch owns three mansions, and boasted to the Journal that he could pay off his only debt, a $1 million mortgage, “with the spare change in my bank account.”

The Journal notes with some surprise that one of the most highly remunerative fields was that of “home-building.” The wealth accumulated by CEOs in this sector is a clear byproduct of the speculative real estate bubble that emerged over the last decade. Toll Brothers, specializing in building suburban mansions, made Robert and Bruce Toll three quarters of a billion in cash, largely in stock sales. The company has lost 74 percent of its value in the past year.

Chad Dreier, CEO of Ryland Group, made $181 million building homes in “hot markets” such as Las Vegas that have now gone bust, exposing thousands of families to foreclosure. Dwight Schar, the CEO of a building firm called NVR, took home $626 million in 2003-2007, almost all from the sale of stock. Schar spent about $86 million of this fortune in 2005 to buy the Palm Beach, Florida estate of billionaire Ronald Perelman. The Journal notes that the 11-acre oceanfront complex includes two swimming pools and a tennis court.

It is perhaps a sign of the times that the Wall Street Journal, long a mouthpiece of US finance capital, would run a prominent article that questions the enormous personal fortunes built up by CEOs through dubious means even as their corporations sailed toward disaster. Running such an article aims in part, no doubt, to appease the rage of thousands of middling investors who have lost their shirts in the economic crisis.

In any event, the criminal methods of these CEOs, who have led their companies and American capitalism as a whole to the brink of ruin, do not derive from personal greed alone. In their criminality and nearsightedness the CEOs reflect, instead, the narrowing horizon and historical decline of US capitalism, in which the accumulation of extreme wealth long ago lost whatever connection it had to the creation of real value.