

Executive Compensation and Iraq Reconstruction Contractors

by Sarah Anderson, Institute for Policy Studies, September 30, 2003

Americans may want to pay to help rebuild Iraq, but they do not want to pay for bloated corporate salaries. The outrage over the \$140 million plus pay package received by New York Stock Exchange head Richard Grasso was strong evidence that the public, including regulatory officials and Wall Street leaders, perceive such excessive compensation as a sign of both economic unfairness and flawed corporate governance. In the debate over Iraq reconstruction, members of Congress should ensure that contracts awarded do not constitute a taxpayer subsidy for excessive compensation.

Currently, many of the companies that have already received Iraq reconstruction contracts award their top executives pay packages that are in the same range as Mr. Grasso's.¹ Defenders of sky-high CEO pay often argue that such compensation levels are justified because corporate leaders bear tremendous responsibilities and must oversee complicated business activities. However, it is worth noting that military generals, who are responsible for the lives of thousands of personnel and command highly complex operations, receive only a tiny fraction of typical CEO pay.

At six of the major U.S. contractors, CEO salary and bonuses in 2002 ranged from \$2.2 million to \$4.1 million (see chart below). Thus, just in terms of base pay, these executives earned more than 15 times the pay of a U.S. army general with 20 years of experience, which is currently set at \$144,932.40.²

If stock awards, options, and other perquisites granted to CEOs are included, the CEOs' compensation comes to \$4.5 to \$25.4 million. This is 31 to 175 times as much as a general's pay.

Compared with the starting base pay of a U.S. soldier (\$12,776.40), pay for contractor CEOs appears even more excessive. For example, Lockheed Martin CEO Vance Coffman, with \$4.1 million in salary and bonus, plus more than \$20 million in options grants and other awards, made nearly 2,000 times the pay of an entry-level soldier.

The contractor CEOs' compensation levels are also far out of line with the maximum "benchmark" compensation allowable under government contracts. The benchmark is set by the Office of Federal Procurement Policy at \$405,273 for FY 2003.³

As Congress debates the best approach to rebuilding Iraq, they should keep in mind President Franklin Delano Roosevelt's sentiment in the aftermath of WWII, when he said: "I don't want to see a single war millionaire created in the United States as a result of this world disaster."⁴

Compensation at Major U.S. Firms That have Received Iraq Reconstruction Contracts

CONTRACTOR/CEO	2002 CEO COMPENSATION	SCOPE OF CONTRACT
Halliburton ⁵ CEO: David Lesar	Salary + bonus: \$2.8 million Total compensation: \$7.3 million	Oil well repair and operation
Northrop Grumman ⁶ CEO: Ronald Sugar	Salary + bonus: \$2.4 million Total compensation: \$9.2 million	Training for Iraqi army
Fluor CEO: A.L. Boeckman	Salary + bonus: \$2.2 million Total compensation: \$4.5 million	Contingency support for CENTCOM
Lockheed Martin CEO: Vance Coffman	Salary + bonus: \$4.1 million Total compensation: \$25.4 million	Airport telecommunications
Motorola CEO: Christopher Galvin	Salary + bonus: \$2.8 million Total compensation: \$11.8 million	Airport telecommunications
Lucent Technologies CEO: Patricia Russo	Salary + bonus: \$2.7 million Total compensation: \$20.8 million	Technical services
Bechtel CEO: Riley Bechtel	Data not available – privately owned firm. CEO was 51 st richest American in 2003, worth an estimated \$3.2 billion.	Construction

Sources: Contractors: "Iraq Reconstruction Contracts Awarded as of September 14, 2003," <http://www.export.gov>. Compensation: Based on corporate proxy statements filed with the Securities and Exchange Commission. Total compensation includes: salary, bonus, "other annual compensation," restricted stock awards, long-term incentive payouts, and the estimated potential realizable value of options granted in 2002. In the cases where the firm provided two estimates based on assumed rates of return of 5% and 10%, the more conservative 5% rate was used.

¹ Grasso received \$2.4 million in salary and bonus, in addition to the \$140 million that was accrued over more than 30 years.

² Defense Financial Accounting Service (<http://www.dfas.mil/money/milpay/pay/2003paytable.pdf>).

³ OMB Office of Federal Procurement Policy; Determination of Executive Compensation Benchmark Amount Pursuant to Section 808 of Public Law 105-85, CFR VI. 68, No 85, 5/2/03, page 23501.

⁴ Quoted in "More Bucks for the Bang: CEO Pay at Top Defense Contractors," United for a Fair Economy, April 28, 2003.

⁵ Contract awarded to subsidiary Kellogg, Brown and Root.

⁶ Contract awarded to subsidiary Vinnell Corporation. Sugar became CEO 4/1/03.