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Following is an abstract from a recent PEW report.

"Over the past thirty years, a larger and larger proportion of America's income growth has gone to those in the upper ten percent of income and especially those in the top one percent. This is a major change from the prior sixty years in which the top ten percent and the bottom ninety percent shared in the income gains. A stark and startling example of the trend is the fact that adjusted for inflation 'average hourly earnings' in this country have not increased in fifty years."

During the thirty year period referred to above, corporate executives were busy executing the greatest heist of shares of corporate ownership in history. They were awarding themselves massive stock grants, at no cost, via the ill-conceived stock based compensation concept.

A stock certificate is not a basis for compensation. The certificate certifies the ownership of a share or shares of stock in a corporation. It is a legal title to a portion of the corporate assets. As a stock grant is processed, the market value of the grant is recovered by a reduction (via dilution) in the value of the shares owned by the paid subscribers by the amount of the market value of the grant. In reality, it's the transfer of shares from the legal owners to the grant recipients without charge and without due process.

It is not unusual for CEO's to accumulate multibillion dollar personal fortunes within a few years e.g., Steve Jobs, L. Ellison et.al. The scope of this massive transfer becomes clearer when expressed as a compensation ratio. The ration of executive compensation to that of the rank and file was about 40:1 at the beginning of the period. The ration increased to a mind boggling 400+:1 today. Talk about voracious greed. Clearly, corporate management dumped its moral compass. A more than tenfold increase in executive compensation with little or no increase in the pay of the rank and file is hardly an expression of consideration for the welfare of subordinates. It is not a pretty picture.

Corporate executives are employees of the entity just like the truck driver. The boom will have to be lowered. Outlaw the ill-conceived stock based compensation plan. Executives will return to their proper slot in the upper levels of the corporate compensation scale—where market forces effectively control compensation levels.

In my opinion, serious question can be raised about the legality of the ill-conceived stock option concept. Both executives and the rank and file are employees of the corporate entity. To award stock grants to the executives and not the rank and file sends a loud and clear message—we will share the profits, the rank and file will not.

Closely related to the out of balance income distribution problem is the SEC mandate that stock holders submit a (nonbinding) commentary on executive compensation no less than once every three years. Who and under what authority was the determination made that the owners of a business (the stockholders) do not have the authority to control their top management compensation plans?

I will appreciate your comments on this bizarre sequence of events.

Respectfully,

M Jablonski

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