

Economists: More must be done on executive pay

BY JEREMY HERB

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Top US economists warned at a House Financial Services Committee hearing today that more must be done to reign in pay practices which led to the 2008 financial collapse.

The witnesses called by US Representative Barney Frank—Nobel Laureate Joseph Stiglitz, Harvard Law School professor Lucian Bebchuk and The Corporate Library co-founder Nell Minow—testified that shareholders should have more power over executive pay and better rules were needed to limit the incentives tied to compensation that lead to excessive risk taking.

“Flawed incentives played an important role in this and other failures of the financial system,” said Stiglitz. “Not only do they encourage excessive risk taking and short-sighted behavior, they encourage predatory behavior.”

Frank’s hearing comes one month after the House passed his finance regulatory overhaul, which has stalled in the Senate. The Financial Services Committee chairman said the industry still needs scrutiny, and he has already planned more hearings, starting with a Feb. 5 hearing on lending practices.

“The notion that we are interfering in the private sector sphere when we set the rules for corporations is nonsense,” said Frank. “Corporations are creations of the law, even though the Supreme Court thinks God created them.”

Minow said companies deemed “too big to fail” aren’t truly changing their practices. While some have claimed to make reforms, introducing new rules like “clawbacks” – where bonuses are returned if investments sour – their enforcement is too lax, she said, requiring provisions like proof of “bad faith.”

Minow used Wells Fargo increasing its CEO’s salary by 522 percent in August as an example of corporations sidestepping TARP regulations.

“What they did before the bailout was counter productive,” Minow said of companies who contributed to the financial collapse. “What they did since the bailout is an outrage.”

Republicans complained that Frank denied their witness request, Federal Finance Housing Agency Director Edward DeMarco. Alabama Representative Spencer Bachus, ranking Republican on the committee, said the hearing should have addressed government-controlled Fannie Mae and Freddie Mac in addition to private companies. Bachus complained about the \$6 million in compensation given to Fannie and Freddie CEOs in December.

Frank said he also thought the compensation was too high, and planned to hold a hearing on Fannie and Freddie in about a month.