Capitalist Punishment

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By Harold Meyerson
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We are in some ways still a nation of Puritans, and we don't much cotton to people who can't take care of themselves and end up sponging off our generosity. We demand that welfare recipients do an honest day's work for their checks. And now, since President Obama laid down the law Wednesday, we demand that the guys who ran our banking system into the ground abide by our pay scales in return for our bailing them out.

After all, what's the moral distinction between welfare recipients and the wizards of Wall Street, other than that the welfare recipients aren't the ones responsible for tanking the global economy?

Obama's decision to put pay restrictions on the top executives of banks seeking a federal bailout is a classic instance of saving capitalism from the capitalists. Wall Street may yelp, but it will be politically impossible to keep the financial system afloat unless the public believes its money is not going to reward the very executives who brought that system down.

But Obama's move isn't just good politics; it's good economics, too. Over the past two decades, Wall Street's reward system has showered the most money on the guys who took the most risks with other people's money. The financial structure that emerged from the New Deal ensured that small investors, pensioners and depositors wouldn't be exposed to high levels of risk, but the repeal of the Glass-Steagall Act and other follies of deregulation plunged everybody into the same high-risk pool. Congress and the president are working to devise new regulations that will restore some safety to the act of investing, but Obama's pay directives -- under which executives can cash out their shares only after they have righted their banks and repaid the government's investment -- are also intended to reward long-term performance over short-term gain.

More broadly, the president's guidelines are an opening salvo to stop the wave of legal looting that American CEOs routinely inflict on their shareholders and employees. Executive pay, you may have noticed, has gone haywire over the past several decades -- with CEOs' compensation rising from 24 times the pay of the average worker in 1965 to 275 times that in 2007. Figures compiled by Lucien Bebchuk of Harvard Law School and Yaniv Grinstein of Cornell's school of management show that the pay of the top five executives in publicly traded firms amounted to 5 percent of those companies' earnings in 1993-95 and 10 percent in 2001-03. Improvements in those companies' performance and increases in their size accounted for just 20 percent of this increase, they calculated, leaving 80 percent of the increase in top-executive pay "unexplained."

Well, let's hazard an explanation. If you stack a corporate board and its compensation committee with top executives from other firms, what you end up creating is a cross-corporate club that rewards its members with the stakeholders' money. If the stakeholders are either doing well enough not to object (such as shareholders during an asset bubble) or aren't doing well but lack the power to do anything about it (such as workers during a time of deunionization), then voilà: Your CEO ends up owning the Fifth Avenue flat, the Hampton beach house, the Aspen ski lodge, the Mayfair menage and at least two-thirds of the Senate Finance Committee, unless the public protests. (Which they are: Scratch the Senate Finance Committee.)

Indeed, why not put a public member on the compensation committees of all the banks that apply for public funds? Why not put no one but public members on the compensation committees of the three mega-companies to which we've funneled more than $250 billion in aggregate -- AIG, Citigroup and Bank of America? In return for providing all its working capital and assuming all its debts, we did take nearly 80 percent of AIG's shares and installed a new management team. We've put up all the capital and assumed all the debts at Citigroup, too, but, mysteriously, we haven't installed better managers or insisted on ownership of anything but its debt. Maybe we are afraid to call nationalization by its right name or are too embarrassed to publicly note that we now own the firm that was steered to its doom partly by Robert Rubin, whose proteges dominate the new administration's economic team. (It's not yet clear whether the benefits that will accrue from the work of Rubin's proteges will outweigh the debts with which he has saddled us.)

Is this any way to treat our best and our brightest? The guys who shuttered our industrial base, indebted us to Communist China, hooked us on plastic and subprime mortgages, bought our politicians, eluded our regulations, wiped out our retirement plans -- and then turned to us for help when their house of debt collapsed? Damn straight it is. Bring on the pillories.