Obama is right to challenge bankers' salaries

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**Dick Fuld, not a familiar name to most Americans, is nevertheless the poster boy for arrogant corporate greed in the United States. He may also be a catalyst for significant changes in executive compensation.**

Fuld is the former chief executive officer of Lehman Brothers who raked in almost half a billion dollars in the eight years before his company went bankrupt. Facing possible lawsuits, he quietly sold his Florida mansion, valued at more than $13 million, for $100 to his wife.

That's the stuff that infuriates struggling and scared average Americans, who are demanding a crackdown on corporate excess.

As the government tries to rescue banks and other companies, Barack Obama's administration is responding to the public outrage, starting recently by limiting compensation at financial firms that get major new government assistance.

Politically, this was essential. Even if Obama is unwilling to bite the bullet this week, he ultimately will have to ask for a lot more federal assistance, in the trillions, for the nation's banks. This tough sell will be impossible if the out-of-work welder in Chillicothe, Ohio, or the financially strapped nurse and single mother in Winston-Salem, North Carolina, are still seething over discredited Wall Street firms handing out billions in bonuses or lavishing perquisites on failed executives.

The restriction of some financial-executive compensation "is the necessary creation of political cover," says David Smick, a Republican economic expert and author of a book on the global economy. This "implicit deal," Smick argues, might engender sufficient public support to avoid a "financial Armageddon."

There's more than just politics. Bloomberg News calculates that the five largest investment banks, Goldman Sachs, Morgan Stanley, Lehman, Merrill Lynch and Bear Stearns (the last three now gone), handed out $145 billion in bonuses in the five years preceding the crash. That amount is larger than the gross domestic product of countries like Pakistan and Egypt.

Much of this was based on short-term performance, increasing incentives for the risky investments that sowed the seeds of the banks' destruction.

"The distorted incentives created by many of these financial arrangements was a major contribution to the financial crisis," says Lucian Bebchuk, a law professor and director of the Program on Corporate Governance at Harvard University.
Some economic conservatives are complaining about too much government intrusion; the Senate Republican leader, Mitch McConnell of Kentucky, has worried about such actions leading to the "nationalization" of business.

Nell Minow, one of America's foremost corporate-governance experts, dismantles that argument: "The government isn't acting as a regulator, it's acting as a capitalist," she says. "Any bailout organization - the government or a private equity firm or the mob - asks for some givebacks."

She worries that there are too many loopholes in what the president and Treasury Secretary Tim Geithner have laid out: The new rules only affect firms that receive "exceptional" assistance, and then only the very top officers. And the "clawback" provision, when bonuses have to be returned if based on false data, only applies in cases of fraud, not misstatement.

Still, she praises it as a step forward and believes the "shame and blame" spotlight will force more accountability. Corporate compensation in America has become a scandal, not because some high-flying CEOs get rich; some should. It's because it also rewards mediocrity and even outright failure by placing more of a premium on short-term gains than on long-term prosperity.

Critics say some firms will turn down federal assistance to avoid pay limits. If they can make it without government aid, that's good for the taxpayers and the banks.

This threat is exaggerated. Five years ago, the government handed out billions to the major airline carriers and, as a condition, imposed modest limits on executive compensation. Not one carrier turned it down.

Moreover, these once-celebrated corporate chieftains should read the history of Chrysler under its former chairman, Lee Iacocca. The automaker got a government bailout 30 years ago, Iacocca slashed his own salary to $1 (though he eventually made millions from stock options), he became a national icon, the company recovered and taxpayers got their money back.

Minow and most corporate-compensation critics don't want the government setting pay levels. There are other actions and pressures that can make this behavior more transparent.

The Obama rules require more openness about activities and compensation from these financial institutions. In 2007, the Securities and Exchange Commission also moved in that direction, requiring publicly traded companies to disclose total compensation for their five highest-paid senior executives.

There are major loopholes: Perquisites, such as air travel and housing, don't have to be disclosed, and under the guise of "competitive considerations," the metrics or formulas used to set pay levels needn't be revealed.

Sometimes executives rely on compensation consultants who are beholden to them because they may have other business with the company. It's not the government's business to regulate these arrangements; yet disclosure of such deals is a no-brainer.
So is requiring more democracy and accountability for directors. Boards like Lehman's, which included actresses, theater producers and a retired admiral, get failing grades from watchdogs like Minow.

Yet the SEC has permitted hand-picked directors to continue on boards, even over the opposition of a majority of shareholders, and sometimes made it exceedingly difficult for shareholders to nominate directors.

The climate is ripe for change, either by new regulations or legislation. Several years ago, before he was chairman of the House Financial Services Committee, Representative Barney Frank of Massachusetts tried for months to merely get a hearing on the issue of allowing shareholders to cast a nonbinding vote on executive compensation. The panel's chairman at the time finally relented and let him have such a session on a Friday afternoon when most members were gone.

Now, Frank is weighing whether to revise this proposal so such votes would be mandatory. If he holds a hearing, there won't be many members absent.