Should CEO pay restrictions spread to all corporations?

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When an armed man walks into a bank branch and demands money from a teller, he's likely to go to jail if he's caught. Criminologist David Friedrichs maintains some bank executives are equally guilty of stealing when they get exorbitant pay packages.

"It's a form of robbery," says Professor Friedrichs, who teaches criminal law at Scranton University in Pennsylvania. It shouldn't be dismissed as "just greedy."

The financial crisis has generated a huge amount of anger around the nation at the mismanagement and excesses of some big bankers - and to a lesser extent at highly compensated corporate executives in other industries as well.

"People are really ticked off," says Sarah Anderson, long a proponent at the Institute for Policy Studies in Washington of legal measures aimed at restraining CEO pay levels. Asked lately to join some call-in radio talk shows dealing with the financial crisis, she notes: "It's unnerving how angry people are with the bankers."

It's unclear whether public displeasure is great enough for Congress to put a complete brake on executive pay beyond measures already imposed on the financial institutions bailed out by Uncle Sam.

But Sen. Carl Levin (D) of Michigan apparently is planning to reintroduce a 2007 bill that would end tax favors for a major form of executive compensation: stock options. And Rep. Barbara Lee (D) of California last month reintroduced a bill that would deny corporations the ability to deduct as a business expense any payment to an executive that exceeds 25 times the lowest paid worker's wage in the company. If that worker received the minimum wage, the deductible compensation for an executive would be $304,200. The company could pay him or her more, but not receive a tax break for the excess.

In 2007, CEOs of major corporations were paid on average 344 times the average worker's pay.

Ms. Anderson advocates that 25:1 ratio on tax deductibility apply to all corporations, including any company that seeks a government procurement contract or tax break. This would generate more than $5 billion in extra revenues for Washington.

One factor probably weighing against congressional action is the political efforts of the nation's companies and their wealthy executives. From 1998 to 2008, the financial sector alone spent at least $1.7 billion on campaign contributions and another $3.4 billion on lobbying, according to a study released last week by Essential Information, a nonprofit group founded by Ralph Nader.

"The righteous populist anger is competing against the awesome political-economic power of Wall Street," says lead author Robert Weissman.

To him, managers of hedge funds won the "most egregious" tax break - the ability to claim their income as capital gains and pay only 15 percent in federal taxes. Considering the high incomes many got before stock prices tanked, these managers would otherwise pay regular income-tax rates at least twice as high. "Completely irrational," says Mr. Weissman of the tax break.

Last year, New York Democratic Senator Charles Schumer, highly dependent on Wall Street for campaign contributions, did not support a measure closing the hedge-fund tax loophole. Yet, argues Anderson, it was "a no brainer."

To "rob" banks, as Friedrichs regards the CEO pay process, executives walk into a corporate boardroom and secure from the board's compensation committee unjustified compensation packages of millions, tens of millions, and sometimes hundreds of millions of dollars. This process, says Friedrichs, "pays much better" for CEOs than robbery does for the crook with a gun. These compensation committees, appointed by the CEOs, are composed of cronies, paid consultants, and even relatives, says the criminologist. By law, some corporate directors must be "independent."

But an academic study of 2008 looking at a small subset of these so-called independent directors who were formerly Wall Street stock analysts describes them as "cheerleaders." One author of the study, Lauren Cohen of the Harvard Business School, says they are "clearly not independent," not adding objectivity to their boards.

Another academic, Harvard Law School's Lucian Bebchuk, suspects public outrage makes the prospects of reform "better than they have been for a long time." His reform preference would be "rules and regulations that strengthen shareholder rights and make boards more accountable to shareholders."

It used to be that CEO pay was a drop in the bucket compared with the size of big companies - "just" 42 times the pay of ordinary workers in 1980. But Professor Bebchuk found that during the period 2001 to 2003 the earnings of the top five executives at a set of large firms amounted to nearly 10 percent of corporate earnings. That is significant to shareholders.

Anderson also takes a shot at the argument that CEOs are irreplaceable management geniuses, deserving fat bonuses.

"I can't believe," she says, there aren't talented people who have "a spirit of shared sacrifice" and seek long-term gains for their companies, rather than those "fixated on how many zeroes there are in their paychecks."