Floyd Norris on compensation, the crisis

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By Robert Teitelman
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The estimable Floyd Norris does a very gutsy thing today in The New York Times: He takes a position on executive comp that runs directly counter to arguments the Times has been cranking out for years now (and which it continues to tub-thump for, as evidenced by its upper-right, front-page story on bank bonuses Friday). It's refreshing. Norris keys in on an academic paper that discounts the effects of high pay on the financial crisis. He raises questions about whether compensation alone led to the disaster and scoffs at the desire of Congress and the administration to regulate pay, pointing out how today's problems were, in part, shaped by earlier legislation. He particularly makes the point that shareholders have a degree of complicity in excessive comp and the large risks the banks took on. And (this may cut the deepest) he's skeptical that, contrary to the populist meme that has been gathering steam, CEOs of Wall Street firms like Lehman Brothers' Dick Fuld fully understood what was coming. He offers a counter-reality to the conspiracy theorists.

In one column, Norris has managed to poke a stick at commentators (never named) as diverse as Lucian Bebchuk, Barney Frank, Matt Taibbi, the Times' own Gretchen Morgenson and the paper's own editorial board (of which he was once a member). Not a bad day's work. He'll undoubtedly be widely pilloried for it.

Norris' argument has some nuance, not that anyone will care. He recognizes that "outrageous" pay raises large issues (in fact much larger than just Wall Street), just that it's not a first-order cause of the crisis. This, to me, is exactly right. Excessive pay in whatever form is a symptom of the crisis and of the unrecognized underlying risk, not, as Congress seems to want to believe, an opportunity for human behavior modification. Wailing about "greed" gets us nowhere, particularly because that greed was encouraged and nurtured by the very shareholders Congress believes will help rein it in. Attacking the symptom is like taking aspirin for the flu: You may feel better temporarily, but you may well be fooled that the disease has been quelled.

The remarkable thing about Norris' column is how, well, unremarkable his insights (and the academic study he keys in on) are. If there was any continuing sign of how easy it is to gull us into believing something when all kinds of empirical evidence suggests at best, greater complexity or, at worst, that it's simply not true, it's the monomania that high comp caused everything bad and that by restricting pay we will insure our future safety. Reforming what bedevils our financial system is far more difficult than that; and the comp debate in Congress is a waste of time, a distraction and an escape from real responsibility. Figuring out how to manage and regulate an economy driven by large amounts of risk and that will stall without it won't be accomplished by making Congress Wall Street's HR department. It's been awhile, but now we know why Norris is truly estimable. - Robert Teitelman

See Norris' column from The New York Times
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