US House passes toothless CEO pay law

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The US House of Representatives passed a measure July 31 that would ostensibly limit executive compensation at financial companies. The move came the day after New York Attorney General Andrew Cuomo revealed that firms receiving bank bailouts paid out over $33 billion in bonuses last year. The bill will not reach the Senate until next spring.

The legislation includes no legally binding restraints on executive pay. Instead, it allows shareholders at public companies to hold nonbinding votes on compensation for top employees. The measure, dubbed "say on pay," purports to "align the interests of executives and companies as a whole," according to proponents.

The bill makes clear that the shareholder votes will have no influence on actual payouts. "The shareholder vote shall not be binding on the issuer or the board of directors," it reads in part.

The legislation requires financial firms to disclose all "incentive-based compensation arrangements" to their respective federal regulators, with the explicit caveat that no information about the compensation of specific individuals is to be disclosed.

The bill also requires "compensation committees be made up of independent directors," according to the House Financial Services' web site. This means that any member of the committees determining executive pay "may not, other than in his or her capacity as a member of the compensation committee, the board of directors, or any other board committee accept any ... fee from the issuer."

Moreover, the bill mandates that financial regulators, including the Federal Reserve and FDIC, "jointly prescribe regulations that prohibit any incentive-based payment arrangement ... that the regulators determine encourages inappropriate risks" to the company or the broader economy. However, the myriad personal and financial links between federal regulators and top financial institutions recalls the proverbial interdiction against placing the fox in charge of the hen house.

The bill passed by a margin of 237 to 185 along largely partisan lines. Congressional Republicans argued for an even more watered-down version of the bill. Their proposals would have given shareholders a "say on pay" once every three years and excluded the section giving regulators power over compensation practices. They also favored taking out the clause mandating regulation of incentives-based compensation practices.

There is conclusive evidence that the compensation practices that came into prevalence during the last two decades contributed directly to the financial meltdown that has engulfed the world. Finance executives hid risks to their companies in order to inflate their own bonuses, then awarded themselves huge payouts even while their firms tanked.

But to suggest that the major shareholders—the ones purportedly empowered by this entirely symbolic legislation—were not in on the game is sheer nonsense. The executives and the big shareholders of the major companies are part of the same parasitic caste; they rob society by turns. The "say on pay" legislation proposed by the Obama administration is in fact the standard in Europe, and has by no means prevented European financial companies from paying bonuses comparable to those prevailing on Wall Street.

Treasury Secretary Timothy Geithner praised the bill, saying it "will encourage companies to set pay in ways that are aligned with sound risk management and long-term value, moving away from the practices of the past that helped contribute to the financial crisis." The bill is among the initial pieces of the Obama administration's so-called "regulatory reform."

Geithner added that the measure was a "positive step" and that compensation reform was an "essential part" of the Obama administration's agenda. Since coming to office, Geithner and President Obama have insisted that the problem of executive bonuses is not one of magnitude but of misaligned incentives. If the bankers make money when their firms are profitable, everything will be fine,

they argue. The administration opposes setting specific limits on executive pay, even for firms that have received billions of dollars in government aid.

"The president continues to believe that the American people don't begrudge people making money for what they do as long as ...we're not basically incentivizing wild risk-taking that somebody else picks up the tab for," White House press secretary Robert Gibbs said last week.

This is a lie. Any objective poll would show that the majority of American people do, in fact, begrudge particular people—the bankers—making tens of millions of dollars a year. There is broad awareness that the compensation paid out by the banks last year was directly financed by government infusions of cash. To cite one example, Morgan Stanley paid out $4.5 billion in compensation after receiving a $10 billion bailout. The nine largest recipients of government aid paid thousands of employees over a million dollars last year, directly at public expense.

The coming year's round of executive bonuses promises to make those of 2008 pale in comparison. Goldman Sachs and Morgan Stanley have already set aside $11 billion and $6 billion for compensation, respectively. Goldman Sachs is on course for its most profitable year and to pay out the largest bonuses in its history. One employee of Citigroup, Andrew Hall, made $98.9 million last year, and is on track to rake in even more this year.

It is this stratum of the fabulously wealthy that the Obama administration and both political parties serve; everything is done to ensure that they continue to receive immense sums at the expense of society as a whole. The "say on pay" bill is a thinly disguised bid to hide Wall Street's looting of the American people.