THE BIG QUESTION, June 12: Regulating private sector pay

June 12th, 2009

The Big Question is a feature where influential lawmakers, pundits and interest group leaders give their answers to a question that's driving discussion in news circles around the country.

Some responses are gathered via e-mail, while others are gathered in person via tape recorder.

Today's Big Question is:

> **Is Obama's effort to regulate private sector pay overreaching? About right?**

See responses below from Grover Norquist, Daniel J. Mitchell, Dean Baker, Patrick Garofalo, William Redpath and Tom McClusky.

Read the last Big Question here.

Grover Norquist, President of Americans for Tax Reform, said:

> The logic of Obama/Reid/Pelosi's "Government as The Blob" strategy where the State mindlessly absorbs everything it runs into is that every failure of the government demands more government.
>
> Government passes out money to banks. Now the government is embarrassed by how much money the banks pay their managers. If they had left the banks (and taxpayers) alone, banks that were stupid enough to buy Barney Frank's Fannie Mae and Freddie Mac toxic assets wouldn't have any money to overpay executives. But since the feds stole money from taxpayers to give it to the banks-among others–now Barney Frank wants to tell the banks what they can pay. READ THE FULL RESPONSE HERE.

Dean Baker, Co-Director of the Center for Economic and Policy Research, said:

> The point that everyone is missing is that the government already sets the rules that determine compensation. The government sets rules of corporate governance.
>
> The current rules allow management insiders to make out like bandits at the expense of shareholders and other stakeholders. This is why clowns get paid tens of millions to run their companies into the ground in the U.S., while the folks who run companies like Toyota and Honda get by on a few million a year (note that we just outsourced top management at Chrysler to Fiat). READ THE FULL RESPONSE HERE.

Daniel J. Mitchell, a Senior Fellow at the Cato Institute, said:

> There should be as many penalties as possible for companies that want to stick their snouts in the public trough and mooch off taxpayers, so I get some visceral pleasure from the Obama Administration's appointment of a bureaucrat to serve as "compensation czar" and dictate compensation levels for the top 100 executives at those firms.
>
> On a more serious note, though, it is very risky to give new powers to the political class. The income tax, for instance, began in 1913 as a two-page form and a top tax rate of just seven percent, yet it has metastasized into today's corrupt and punitive internal revenue code. READ THE FULL RESPONSE HERE.

Patrick Garofalo, an economics researcher and blogger at the Center for American Progress, said:

It's definitely not overreaching, and in fact, may turn out to be a bit weak. The Obama administration is simply trying to ensure two things: 1) That companies receiving exceptional federal aid — all of seven companies — adhere to compensation practices that are in the interest of taxpayers. And the administration won't even be capping pay there. 2) Making sure that shareholders are at least assured of a vote regarding their company's pay practices — so called "say on pay" — which has been a feature of British corporate governance since 2002. But the vote is non-binding, so it's really unclear how much good it's going to do.

There has been some talk of trying to reform corporate pay structures to incentivize long-term gains over short-term, but even Goldman Sachs CEO Lloyd Blankfein has said that such a move is necessary. So I'd argue that those saying Obama is overreaching are doing a bit of overreaching themselves.

Tom McClusky, Senior Vice President of FRC Action, said:

Overreaching. "I believe the structure of compensation is flawed. Namely, we have had a system of compensation for top decision makers in which they are very well rewarded if they take a risk that pays off but suffer no penalty if they take a risk that costs the company money." That was Finance Chairman Barney Frank (D-Mass.) who, when it comes to Internet Gambling fancies himself a libertarian, however when it comes to pay compensation sees himself more in the mode of Karl Marx. The Congress has no role in setting salary ceilings (or for that matter salary floors) for private companies that are not on the public dole. Democrats before the current Administration and Rep. Frank have engaged in this class warfare where they believe it is the role of the federal government to redistribute wealth, but few have done it with such gall. Are unions not to blame, at least partly, for the mess we are in? Why do they not go after the unions with such gusto? I'm sure it has nothing to do with the millions in campaign contributions they receive from union leaders. Finally in the first several months of this Congress and the Obama Administration spending has been out of control and the economy is still flailing (they can blame whomever they want for that but the Democrats, including the young Senator Obama, have held the purse strings for the last two years.) If Barney Frank truly believes that "top decision makers" need to suffer a "penalty" for taking risks "that costs the company money," then the leadership of both parties needs to take severe salary cuts for their roles in creating today's economic crisis.

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