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Government widens control over paychecks

BAILED-OUT FIRMS ARE FIRST Measures aim to cut risk to companies, economy

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The Federal Reserve joined the Treasury Department on Thursday in imposing new limits on executive pay, extending the government's control over compensation at taxpayer-owned companies to institutions that are merely government regulated.

The restrictions were the latest in more than a year's worth of government intervention in matters once considered inviolable aspects of the country's free-market economy and represent a signal moment in the history of the American economic experiment. After years of setting minimum wages, the government is now telling some companies how they should structure pay for those who run them.

The actions Thursday put the United States more in line with European governments. France and Germany, in particular, have pressed for international standards to limit executive pay, a move that the United States and Britain have resisted.

At Treasury, President Obama's pay czar, Kenneth Feinberg, announced sharp cuts in pay for 175 top executives at seven big banks and automakers that received hundreds of billions of dollars in federal bailout money during the financial crisis. The new structures reduced the cash salary paid to some executives by 90 percent and tied more compensation to long-term stock awards.

"There is entirely too much reliance on cash, and there's got to be a better way to tie corporate performance to long-term growth," Feinberg said at a media briefing. "I'm hoping that the methodology we developed to determine compensation for these individuals might be voluntarily adopted elsewhere."

At the Federal Reserve, Chairman Ben S. Bernanke proposed a broader but less proscribed plan to restrict pay at banks. The aim is to prevent them from rewarding employees for actions that could endanger the firms' long-term financial health. Unlike Feinberg's more limited plan, the Fed's guidance would cover all banks it regulates -- even those that never received a bailout

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-- as well as U.S. subsidiaries of foreign companies.

However, the Fed's proposed rules have wiggle room: The guidelines would let banks set their own compensation but give the Fed veto power over pay practices that it determines could threaten the safety and soundness of a bank. They would extends the regulators' reach into pay practices affecting tens of thousands of bank employees, from senior executives to traders of complex securities.

"I've always believed that our system of free enterprise works best when it rewards hard work," Obama said at the White House on Thursday. "But it does offend our values when executives of big financial firms -- firms that are struggling -- pay themselves huge bonuses even as they continue to rely on taxpayer assistance to stay afloat."

Since the crisis began, the federal government has used taxpayer money to inject capital into financial firms in exchange for ownership stakes. Failing Fannie Mae and Freddie Mac were taken over by Washington. American International Group, the world's largest insurance company, is 80 percent owned by U.S. taxpayers. The government has picked winners (Bear Stearns) and losers (Lehman Brothers). And a sitting chief executive -- General Motors' Rick Wagoner -- was effectively fired by the White House.

Executive compensation has long been linked to company performance -- the higher profits and stock prices go, the bigger the payday for top executives. But Bernanke, other regulators and many on Capitol Hill say that compensation packages were so high that they led executives to put their companies and shareholders at risk solely for the benefit of multimillion-dollar bonuses.

"The Federal Reserve is working to ensure that compensation packages appropriately tie rewards to longer-term performance and do not create undue risk for the firm or the financial system," Bernanke said.

The banking industry viewed the Fed's guidelines with ambivalence. Many banks already are moving to revise compensation practices for top executives and other employees who could expose the bank to bet-the-company risks. But industry representatives are wary of the regulations,

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concerned that they could ensnare even relatively low-level employees of smaller banks.

"If it focuses on those who really put institutions at risk, that's fine," said Ed Yingling, chief executive of the American Bankers Association. "But if you get down to the point where you have regulators looking over the shoulders of branch managers, it really does not make sense."

Long-simmering resentment over executive compensation boiled over in March when it was revealed that AIG, the recipient of a taxpayer-fueled bailout package worth up to $180 billion, was paying hundreds of millions of dollars in bonuses to a trading division that nearly brought the company and the global financial system to their knees.

The seven companies included in the Feinberg's cash crackdown are AIG, Citigroup, Bank of America, General Motors, Chrysler, GMAC and Chrysler Financial.

The new pay ceilings are low by Wall Street standards, and they are by no means watertight. They still allow for hefty compensation.

For instance: Feinberg reduced the cash salary of 13 top Bank of America executives by $89 million for 2009. But the total compensation for each of the 12 executives beneath outgoing chief executive Kenneth D. Lewis still averages $6.5 million this year. Feinberg's actions do nothing to stop Lewis's $70 million retirement compensation.

And the companies escape the pay curbs if they pay back all of the bailout money they have received.

Still, Feinberg managed to slash about $879 million in total 2009 compensation at the seven companies, compared with 2008 levels.

Sen. Charles E. Schumer (D-N.Y.) said Feinberg did not go far enough. He urged Feinberg to push the government deeper into corporate boardrooms via a number of proposals, such as forcing companies to split the jobs of chief executive and chairman.

Daniel J. Mitchell, senior fellow at the libertarian Cato Institute, says he worries about the slippery slope.

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"I fear as politicians get a taste for interfering with executive pay for one little subset of companies where you actually could have sympathy for the approach, what's going to stop them from saying, 'Hey, this was popular. Let's do a little demagoguery before the next election and go after all the CEOs.' "

Correspondent Anthony Faiola in London contributed to this report.