Administration to Reform CEO Compensation

According to Geithner, the "say on pay" legislation will authorize the SEC "to require companies to give shareholders a non-binding vote on executive compensation packages." Giving shareholders this vote would supposedly "encourage boards to ensure that compensation packages are closely aligned with the interest of shareholders."

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The other legislation authorizing the SEC to oversee compensation committees, would impose "standards similar to those in place for audit committees as part of the Sarbanes-Oxley Act." This is claimed to ensure more independence for the committees, which would be given "the responsibility and the resources" to hire independent consultants and outside counsel.

These pieces of legislation would apply to all publicly traded companies. Geithner claimed that in all of this the federal government is neither capping pay nor prescribing exactly how companies should set compensation, but rather it is merely setting "standards that reward innovation and prudent risk-taking."

Feinberg's role will presently be limited to those companies that have received federal bail out money. In contrast to Geithner's claim, Feinberg will decide the pay and bonuses given to the top 25 executives at the American International Group, Citibank, Chrysler, Chrysler Credit, General Motors, GMAC, and Bank of America. For another 80 companies that have benefited from an infusion of taxpayer dollars, Feinberg will develop structures to determine compensation but will not directly set exact amounts.

Now the firms that sold their souls to Uncle Sam in return for federal money are finding out the true price of their bargain. But it is interesting that these administration efforts are a response to public outrage over the high compensation packages at companies receiving bailout money. Rather than stop giving away taxpayer dollars when it becomes obvious that some of those dollars are attracting unwanted attention, the government instead increases its control over bailed out firms under the guise of responding to public outrage.

Geithner failed to mention where the "resources" to be given to compensation committees for hiring outside help will come from. With the SEC in charge, one assumes the federal government will be the source. Taxpayers, having complained about executives being paid too much, can now pay some of their tax dollars to make sure that never happens again, all while government grows ever bigger through the regulatory power to enforce this.

Geithner claims to be interested in rewarding innovation and prudent risk-taking, but isn't the federal bailout rewarding firms that demonstrated just the opposite? Their complacence and very imprudent risk-taking landed them billions of taxpayer dollars. Not a bad reward at all!

Big government will gladly extend its regulatory hand while claiming to foster innovation and wise risks because it wins no matter what. If a business succeeds, the government can claim its regulations are working; if a business fails, the government can simply dole out taxpayer money to get majority ownership.

Perhaps Geithner and the rest of the administration should support the one standard that truly does reward innovation and prudent risk-taking — the free market.

Photo: AP Images