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'Pay czar' watchdog looks like puppy

Austin Business Journal - by Brent Dyer

This summer, after the Obama administration announced the appointment of a new federal watchdog who promised to rein in excessive salaries and bonuses of the "fat cats" on Wall Street, many of us expected to find those same fat cats scurrying up a tree in short order.

Now that the "pay czar" has rolled out his guidelines, however, the fed watchdog is starting to look like little more than a puppy up against a bunch of nasty alley cats.

In October, federal pay czar Kenneth Feinberg set guidelines for the pay for top executives at the seven largest recipients of bailout money through the Troubled Asset Relief Program, or TARP.

Under Feinberg's guidelines, the Top 100 executives at those companies — **Bank of America**, **Citigroup**, **AIG**, **Chrysler Group**, **Chrysler Financial**, **General Motors** and **GMAC** — would be limited to $500,000 in annual cash compensation along with grants of stock that vest after three years.

Although the guidelines only apply to the companies that received large amounts of TARP money, the Obama administration seems to hope that other companies — especially financial institutions — will adopt similar executive pay practices.

Unfortunately, instead of encouraging the banks to put more emphasis on healthy, long-term business practices — like increasing loans to creditworthy small and medium-sized businesses — the pay guidelines are prompting bank executives at Bank of America and Citigroup to use all available resources to repay the TARP loans to avoid this kind of federal oversight.

Indeed, despite the denunciations of the president and his pay czar, high-flying corporate executives still demand cash-rich compensation packages that foster a "take the money and run" mentality. And curiously, the pay czar appears to be buying into at least some of their arguments.

In recent weeks, Feinberg has granted exceptions to several AIG execs because — according to AIG — these "irreplaceable" employees would quit if they only received $500,000 in annual cash compensation and had to take the rest of their pay in the form of annual stock grants.

Based on my experience in employment law, I am skeptical of the concept of an irreplaceable employee.

If they are threatening to quit, should Feinberg or anyone else care if the doors hit them on the way out?

The 'irreplaceable executive' line is baloney. Companies recover from the loss of these employees all the time. America is full of talented, qualified, highly motivated individuals who want the opportunity to prove themselves. Employers who take a chance on hiring these people usually end up better, more successful and more profitable.

Unfortunately, Feinberg seems to have forgotten that executives — even powerful, highly paid ones — are still employees of the corporation. Like other employees, they are obligated to look out for the best interest of their employer. And, because they are human beings, they need to be given incentives and consequences.

Feinberg shouldn't be afraid to use compensation caps as a method for keeping the executives for all of the TARP recipients focused on what is best for the company.

What's more, I think that the administration should look into using the power of the **Federal Reserve** to incentivize all U.S. banks to create healthier compensation structures for their leaders. Bank executives who are focused on creating long-term growth for their employers are good for all aspects of the economy.

If the current execs aren't willing to stay on board unless they get huge cash salaries, they should be let go. There are lots of qualified, talented, motivated Americans out there who are dying for a chance to show that they can rise to the challenge.

And most of them would do it for less than $500,000 per year.

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