COMMENTARY

Fat cats make 'pay czar' watchdog look like puppy

GUEST COMMENTARY

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, the 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 millions of dollars in annual stock grants.

Based on my experience in employment law, I am skeptical of the concept of an irreplaceable employee. Some folks are so talented and unique that their loss would be a major blow to the company, but remember, we are talking about many of the same executives who drove their businesses and their industry into the ditch last year — taking the U.S. economy with them.

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 executives — are still employees of the corporation. Like any 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 that will help them keep their priorities in the proper order.

Feinberg shouldn't be afraid to use compensation caps as a method to keep 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. ■

BRENT DYER is an employment law attorney with Looper Reed & McGraw PC.

COMMENTARY

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Tax credit could stimulate return to full employment

BY ROBERT PEARSON
SPECIAL TO HOUSTON BUSINESS JOURNAL

Despite optimistic reports from Washington that Texas has created — or saved — thousands of jobs with stimulus funding, record unemployment still raises concerns about our economy. Because many of these stimulus-related jobs were temporary, the economic ripple stopped short.

With the holiday season upon us, retailers haven't forgotten that 2008 resulted in the industry's worst holiday season in decades — and they are bracing for another decline in spending.

Many have postulated the lack of spending is a permanent shift in consumer behavior caused by the depth of our current recession. If so, this doesn't bode well for the economy as a whole, as consumer spending has typically accounted for more than two-thirds of our gross domestic product.

However, I don't think a permanent shift is at hand. I believe that if we could get back to "full employment," consumers would spend again.

So, how could we get back to full employment? I propose the federal government introduce a tax credit to small businesses — perhaps $10,000 — for each net new employee hired, paid at least $35,000 per year and retained for at least 12 months.

According to the Small Business Administration, there are approximately 20 million small businesses with annual revenues under $5 million in the United States.

The government recently reported more than 15 million job seekers. Add shadow unemployment — those who have given up the search — and it's closer to 20 million.

If half of all small businesses hired just one person to receive the $10,000 tax credit, we would create 10 million jobs and reduce unemployment to less than 5 percent — basically defined as "full" employment. Quite honestly, we small business folks would have a hard time finding and hiring enough people.

Yes, it would result in a one-time loss of tax revenue of $100 billion — small potatoes these days — but would create jobs for 10 million people. These new hires, now on a payroll, would in turn spend and create more income tax revenue.

In fact, it would create at least $50 billion in annual income tax revenue if you factor the 10 million people at $35,000 income and at a marginal tax rate of 15 percent. That's a two-year payback of the original $100 billion "investment."

This approach would reduce the runaway deficit and significantly reduce unemployment payments. Furthermore, it would result in some substantial tax revenue for the new business (the multiplier effect) that consumers would create by spending when employed. I argue the net tax effect would be quite positive.

Prior to World War I, U.S. unemployment was highly cyclical, with an average rate of about 4 percent and no clear trend. Between the wars, unemployment was much higher, with a peak rate of about 15 percent in 1932. After World War II, full employment was maintained continuously until about 1970. It is only in the last 20 years that unemployment rates have been trending so high.

Wouldn't it be nice to go back to the "good old days" of full employment? ■

ROBERT PEARSON is a small business owner and founder of Dallas-based Pearson Partners International, an executive search firm.

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Houston Business Journal is a publication of
American City Business Journals Inc.
120 West Morehead St., Suite 400, Charlotte, NC 28202
Whitney Shaw, President & CEO
Ray Shaw, Chairman (1989 to 2009)

American City Business Journals