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## Could bailout's pay caps launch Wall Street trend?

**Some see the beginning of the end for huge compensation for financial titans. Others say the limits are too weak to bring real change.**

By [Ron Scherer](#) | Staff writer of *The Christian Science Monitor*  
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New York - Lloyd Blankfein, chairman of Goldman Sachs, made \$73.7 million last year. James "Jamie" Dimon, chairman of J.P. Morgan Chase, had to make do with \$57.2 million, reported Forbes magazine.

But if either company takes part in the federal government's \$700 billion rescue plan for financial firms, Mr. Blankfein and Mr. Diamon may have to be content with \$500,000 a year, or their company will have to pay higher taxes.

While it's not likely this will cause either man to skimp on meals, the proposed mandate shows the depth of animosity toward highly paid executives on Wall Street. Some compensation consultants wonder, in fact, if the clampdown may be the leading edge of a shift away from the enormous pay packages of the past decade.

"Executive pay rates and Wall Street in particular have reached extraordinary heights," says John Challenger of Challenger Gray & Christmas, a Chicago-based executive outplacement firm. "We may be at the point where the pendulum is beginning to shift."

No doubt about it, financial executives have made a bundle – sometimes pocketing multimillion-dollar packages while their companies were taking losses that had been run up on their watch. Among them: Charles Prince, former head of Citigroup, ended up with "accumulated benefits" of \$29 million; Stanley O'Neal, who ran Merrill Lynch & Co., got \$161 million in accumulated benefits, and Martin Sullivan of AIG received a severance package of \$47 million.

These packages have irked many in Congress. "We want to make sure that executives aren't given 'golden parachutes,' aren't given extraordinarily high salaries from the federal government stepping in,"

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said Rep. Chris Shays (R) of Connecticut on "NBC Nightly News" on Sept. 22.

The bailout legislation racing through Congress this week aims to limit some of these practices, at least as far they concern CEOs and chief financial officers. Under the proposed new rules, when the Treasury buys more than \$300 million in troubled assets, the selling institution must limit payments made if an executive leaves for a reason other than retirement (sometimes called golden parachutes) and must hold executive compensation to no more than \$500,000 per year. Otherwise, the company will face additional corporate taxes, including a 20 percent excise tax on any golden parachutes.

Some critics say the effort is too weak.

"Congress missed a golden opportunity to use the leverage of the bailout to put tough controls on an out-of-control executive pay system," said Sarah Anderson, project director of the Global Economy Project at the Institute for Policy Studies (IPS), a progressive think tank in Washington. "Without clear limits on pay, the public is being asked to put their trust in Secretary [of the Treasury Henry] Paulson, a man who made hundreds of millions of dollars as a Wall Street CEO, to decide what's 'excessive,' " she said in a statement Monday.

IPS favors a lid on CEO pay set at 25 times the pay of a bailed-out company's lowest-paid worker. The current top federal paycheck – the president's \$400,000 annual compensation – represents about 25 times the pay of the US government's lowest-paid employee.

Financial executives, for their part, say most of their compensation is at risk because it is tied to the firm's performance in the stock market. In testimony this May before a congressional committee, Merrill Lynch's Mr. O'Neal defended his payout. "When the business does well, all shareholders do well. But if the business does not do well, the value of the compensation can plummet."

Indeed, O'Neal's net worth in Merrill Lynch stock has plunged from \$127.7 million in January 2007 to \$40.2 million, according to a Sept. 21 New York Times report.

Are financial executives being singled out for pay limits because of the strong anti-Wall Street sentiment on Main Street? Some suggest that bias plays a role.

"If we put caps on compensation to anyone benefiting from government subsidies or funds, that could affect almost anyone in the private sector," says James Barth, a senior finance fellow at the Milken Institute in Santa Monica, Calif.

Compensation watcher Graef Crystal wonders where the government draws the line. "Everyone is on the dole," he says. "Take the solar industry, for example. The whole industry is subsidized."

The same is true for farmers, aerospace companies, and, soon perhaps, the automobile industry, which is looking for \$25 billion in government funding, Mr. Crystal says. "It's hard to see any industry that has not been affected" by reason of receiving government help.

Yes, Wall Street is among the highest-paid industries – whether those companies have had good years or bad ones, says Crystal. He recounts a conversation he had back in the 1990s with John Gutfreund, who at the time was CEO of Salomon Brothers, an investment bank that has since been absorbed into Citigroup. "We are having a profit problem," Crystal remembers Mr. Gutfreund telling him. "We need to put together a \$100 million [compensation] fund so our good people don't defect to other firms."

"Gutfreund told me, 'In good times we pay high. In bad times we switch and say we have to keep our good people.' "

And when does pay drop on Wall Street? asked Crystal. "He answered, 'We never pay low, and we get a severance package if we really screw up.' "

Gutfreund, through a spokesman, said Monday that such a conversation never happened.

Doubts abound as to whether any pay curb will be effective, because executives are likely to find a way around it.

"These are the most clever people when it comes to writing financial contracts," says Doug Elmendorf, a senior fellow at the Brookings Institution in Washington. "They will hire people to figure out how to get around it."

Mayra Rodriguez Valladares, who runs training sessions on complex financial products on Wall Street, says a lot of anger can be found inside Wall Street firms themselves. "There are a lot of people who work for these firms who don't even make \$50,000 or \$60,000 a year, and they are angry, too," says Ms. Valladares, a principal in MRV Associates.

Some executives who don't want to take pay cuts may opt to go to private equity firms or hedge funds that are not involved in the rescue plan.

"The most knowledgeable executives will go to where the best jobs are. They might not go to these troubled companies anyway," says Mr. Challenger.

If the CEOs at troubled banks have a choice of participating in the government's plan or watching their company go out of business, he says, the decision is easy. "You save the company and all the people," he says.

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