

House Panel Clashes Over Pay Restrictions

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Less than a day after the Obama administration announced a plan to set executive pay levels at bailed-out companies like Citigroup and Bank of America, a spat broke out among members of a House committee on Thursday about the regulation of corporate compensation.

The ideological clash came at a hearing before the House Financial Services Committee during which lawmakers debated whether executive pay should be curbed at all companies, not just those receiving federal money.

The topic sent the committee's Republican members into an uproar, with several balking at the idea of the government setting rules that would interfere with the internal affairs of companies.

"There is no question that there have been some questionable decisions made by some of our major corporations regarding executive pay," said Spencer Bachus of Alabama, the committee's ranking Republican. "However, I strongly believe that it is neither the executive branch nor Congress's role to mandate compensation policies, or the role of this Congress or the executive branch to say who sits on a corporate board of directors or interfere with governance in any way."

Barney Frank of Massachusetts, the chairman of the committee, disagreed, saying it needed to come up with a bill that would alter the structure of executive pay before the Congressional summer recess.

"I believe the structure of compensation is flawed," Mr. Frank said. "Namely, we have had a system of compensation for top decision makers in which they are very well rewarded if they take a risk that pays off but suffer no penalty if they take a risk that costs the company money."

Lucian A. Bebchuk, a Harvard law professor who testified at the hearing, had similar criticisms about the banking industry in particular.

In a written version of his opening statement to the committee, he argued that banks' lopsided pay structure had encouraged dangerous risk-taking. "Because top bank executives were paid with shares of a bank holding company or options on such shares, and both banks and bank holding companies obtained capital from debtholders, executives faced asymmetric payoffs, expecting to benefit more from large gains than to lose from large losses of a similar magnitude."

Many Republicans on the committee expressed concern that the administration was using the financial crisis to extend its grasp over the private sector. While they generally said they approved setting compensation limits on those companies that took money under the Troubled Asset Relief Program, they stopped short of supporting legislation that would broadly change corporate governance practices.

“Executives at failed companies that come to the taxpayers with tin cup in hand must be subject to compensation limits. Period, paragraph, let there be no doubt,” said Jeb Hensarling, Republican of Texas. “Except for the first principle, Congress has no business setting artificial and mandatory limits on anyone’s pursuit of their American dream.”

Officials from the Treasury Department and the Federal Reserve were on hand Thursday to describe the Obama administration’s stance, reiterating Treasury Secretary Timothy F. Geithner’s statements from Wednesday on executive compensation. The recommendations were focused on increasing the power and independence of corporate compensation committees and giving shareholders a nonbinding vote on executive pay, through what are known as “say on pay” provisions.

“Our goal is to help ensure that there is a much closer alignment between compensation, sound risk management and long-term value creation for firms and the economy as a whole,” Gene Sperling, counselor to the Treasury secretary, said in his opening remarks. “Our goal is not to have the government micromanage private sector compensation.”

Although Wall Street may be the focus of the pay debate right now, he suggested that the problem was much wider.

“While the financial sector has been at the center of this issue, we believe that compensation practices must be better aligned with long-term value and prudent risk management at all firms, and not just for the financial services industry,” Mr. Sperling said.