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# Exposing myth behind top salaries

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INSIDE THE MARKETS

Sometimes it is what doesn't happen that is most illuminating.

When Kenneth R. Feinberg, the pay czar, first cut executive compensation at U.S. companies that had benefited most from a government bailout, the cry was that it would hurt those weakened firms when they could least afford it: The best and brightest would leave for better money elsewhere, where the free market still ruled.

Well, the door did not hit them on their way out, but mostly because they stayed rooted to their desk chairs.

Mr. Feinberg evaluated the compensation of 104 top executives at affected companies in 2009, reducing pay for most to levels far below industry norms and their own former earnings.

**It turns out that cutting executives' pay doesn't drive them to flee to competitors.**

Yet here we are in 2010, and about 85 percent are still working for the same companies, still toiling for the kinds of wages that may well make them wish they had gone into law rather than finance. Remember all those articles about how impossible it is to make it in New York on $500,000 a year?

Mr. Feinberg told CNBC television, "The argument that we hear all the time, that if we don't pay more this key official will leave, he will go to a foreign competitor — I've always been dubious about that argument, and I think the statistics bear out the fact that most officials stay at those companies."

Mr. Feinberg announced this week that he had told American International Group, General Motors, GMAC, Chrysler Group and Chrysler Financial to cut cash compensation for 119 top executives by a third in 2010 and total pay by 15 percent. Bank of America and Citigroup have repaid taxpayer funds and are now subject to diminished supervision by Mr. Feinberg, whose task is to determine whether pay at bailed-out companies is "in the public interest."

He also announced that he would examine pay in late 2008 and early 2009 at all 419 companies that had received bailout money via the Troubled Asset Relief Program.

Even if you think, as I do, that the mechanisms intended to protect the interests of shareholders in setting executive compensation are broken, the idea of a government pay czar is untenable, even risible. The U.S. bailed out its banks and automakers and had to do something to address the obvious inequity of seeing some of that money line the pockets of executives.

In showing that one of the main arguments used to justify ever-expanding executive pay — a market that will snap up the undercompensated — may be flawed, Mr. Feinberg has done us all a great favor.

The great thing about Mr. Feinberg's little experiment is that it is easily scalable. All he has done is test a false market. If I were on the compensation committee of a corporate board and I looked at that 85 percent figure, I might just feel compelled to give it a go at my own company.

Executive compensation at U.S. companies has grown enormously in comparison with overall wages. That is not a problem because it denotes inequality; it is a problem because it indicates that the market forces that determine most wages are somehow not operating in the same way when the elevator gets to the top floor. One of those markets is false, and I am betting that it is the one controlled by a self-interested group of executives, board members and compensation consultants.

In other words, this is a problem of shareholders' rights.

Lucian Bebchuk of Harvard Law School has argued that relations between top executives and boards are not truly arm's length. There are simply too many ways for management to reward boards for overpaying them. A given board member has much to fear by taking on a highly paid chief executive and little reason to believe he will be rewarded or defended by shareholders if he does. Institutional shareholders have ranged from ineffective to comatose.

All of this makes a case for breaking down the barriers that protect executives and boards from shareholder influence — staggered board elections and takeover defense measures, to name just two.

Mr. Feinberg has cut through those defenses with a single stroke and has demonstrated the lie that market forces have driven compensation.

What is needed now is not one big Feinberg working for the government, but thousands of little Feinbergs working for shareholders.

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