Dissenting Views on H.R. 1257, "Shareholder Vote on Executive Compensation Act"

H.R. 1257 gives the Securities and Exchange Commission (SEC) the power to force publicly traded corporations to conduct shareholder votes on non-binding resolutions concerning the compensation packages of Chief Executive Officers (CEOs). Giving the SEC the power to require shareholder votes on any aspect of corporate governance--even on something as seemingly inconsequential as a non-binding resolution--illegitimately expands federal authority into questions of private governance.

In a free market, shareholders who are concerned about CEO compensation are free to refuse to invest in corporations that do not provide sufficient information regarding how CEO salaries are set or do not allow shareholders a say in setting compensation packages. Since shareholders are corporations' owners, the CEO and board of directors have a great incentive to respond to shareholders' demands. In fact, several corporations have recently moved to amend the ways they determine executive compensation in order to provide increased transparency and accountability to shareholders.

Some shareholders may not care about a CEO's compensation package; instead they may want to devote time at shareholders' meetings to reviewing corporate environmental polices or ensuring the corporation has `family-friendly' workforce policies. If H.R. 1257 becomes law, the concerns of those shareholders will take a back seat to corporations' attempts to meet the demands of Congress.

It is ironic that Congress would concern itself with high salaries in the private sector when, according to data collected by the CATO Institute, federal employees, on average, make twice as much as their private sector counterparts. One of the examples of excessive compensation cited by the supporters of the bill is the multi-million dollar package paid to the former CEO of Freddie Mac. As a government sponsored enterprise that, along with its counterpart Fannie Mae, received almost 20 billion dollars worth of indirect federal subsidies in fiscal year 2004 alone, Freddie Mac is hardly a poster child for the free market!

Past government actions have made it more difficult for shareholders to hold CEOs and boards of directors accountable for disregarding shareholder interests by, among other things, wasting corporate resources on compensation packages and golden parachutes unrelated to performance. During the 1980s, so-called corporate raiders helped keep corporate management accountable to shareholders through devices such as `junk' bonds that made corporate takeovers easier.

The backlash against corporate raiders included the enactment of laws that made it more difficult to launch hostile takeovers. Bruce Bartlett, writing in the Washington Times in 2001, commented on the effects of these laws, `Without the threat of a takeover, managers have been able to go back to ignoring shareholders, treating them like a nuisance, and giving themselves bloated salaries and perks, with little oversight from corporate boards. Now insulated from shareholders once again, managers could engage in unsound practices with little fear of punishment for failure.' The federal `crackdown' on corporate raiders, combined with provisions in Sarbanes-Oxley disqualifying the people who are the most capable of serving as shareholder watchdogs from serving on corporate boards, contributed to the disconnect between CEO salaries and creation of shareholder value that is being used to justify another expansion of the regulatory state.

In addition to repealing laws that prevent shareholders from exercising control over corporations, Congress should also examine United States monetary policy's effects on income inequality. When the Federal Reserve Board injects credit into the economy, the result is at least a temporary rise in incomes. However, those incomes do not rise equally. People who first receive the new credit--who in most instances are those already at the top of the economic pyramid--receive the most benefit from the Fed's inflationist polices. By the time those at the lower end of the income scale experience a nominal rise in incomes, they must also contend with price inflation that has eroded their standard of living. Except for the lucky few who take advantage of the new credit first, the negative effects of inflation likely more than outweigh any temporary gains in nominal income from the Federal Reserve's expansionist polices.

For evidence of who really benefits from a system of fiat money and inflation, consider that in 1971, before President Nixon severed the last link of the American currency to gold, the typical CEO's salary was 30 times higher than the average wage of the typical employee; today it is 500 times higher.

Explosions in CEO salaries can be a sign of a federal credit bubble, which occurs when Federal Reserve Board-created credit flows into certain sectors such as the stock market or the housing market. Far from being a sign of the health of capitalism, excessive CEO salaries in these areas often signal that a bubble is about to burst. When a bubble bursts, people at the bottom of the economic ladder bear the brunt of the bust.

Instead of imposing new laws on private companies, Congress should repeal the laws that have weakened the ability of shareholders to discipline CEOs and boards of directors that do not run corporations according to the shareholders' wishes. Congress should also examine how fiat money contributes to income inequality. I therefore request that my colleagues join me in opposing H.R. 1257 and instead embrace a pro-freedom, pro-shareholder, and pro-worker agenda of free markets and sound money.

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