

## **Reaction to the Bailout Vote** ***IPS Analysts Say 'Make Wall Street Pay'***

WASHINGTON, Sept. 28, 2008, 4:00 pm – With the stunning House of Representatives vote against Treasury Secretary Henry Paulson's \$700 billion bailout of Wall Street, economic analysts of the Institute for Policy Studies said today, the American people have sent a loud and clear message.

"Americans have told Congress," says IPS Senior Fellow Chuck Collins, "that average taxpayers must not pay for bailing out Wall Street."

The alternative, adds IPS, couldn't be clearer.

"Wall Street must pay for the bailout," says Collins. "The speculators should pay through securities taxes, financial disgorgement, and surcharges on incomes over \$1 million." IPS released a proposal on how to pay for a Main Street and Wall Street bailout. See: <http://www.ips-dc.org/articles/740>

Wall Street could pay, notes IPS, if lawmakers started addressing the massive economic inequality at the root of America's financial system meltdown.

"That would mean," notes IPS Associate Fellow Sam Pizzigati, "both getting serious about restraining executive pay – something the failed bailout plan did not do – and taxing the speculation and speculative fortunes that have so distorted the American economy over recent years."

And that would also mean, adds IPS analyst Dedrick Muhammad, "a major federal effort to stimulate the recovery of America's 'real' economy and 'bail out' average Americans."

IPS has just released an analysis of the inadequate CEO provisions in the Wall Street bailout defeated today. This release (see below) also references the Institute's ten-point revenue plan that would place the funding burden of any bailout on those who have profited the most from America's current economic divide.

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**Institute for Policy Studies**  
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### **Executive Pay Experts Critique Financial Bailout Bill** ***Institute for Policy Studies analysts say bill falls short on CEO pay***

Washington, D.C. – The draft bailout bill released yesterday contains several historic provisions that represent positive steps toward ending taxpayer subsidies for executive pay. But the bailout bill ultimately falls short on CEO pay — by failing to set a specific limit on the compensation of top executives at bailed-out companies.

The bill applies two different sets of executive compensation criteria, depending on whether the government negotiates directly with the institution to purchase troubled

assets or whether it purchases them through auction.

**SUMMARY OF EXECUTIVE PAY PROVISIONS:**

<p align="center"><b>DIRECT PURCHASES</b> (Treasury Secretary purchases troubled assets directly from the firm and receives a meaningful equity position in the institution)</p>	<p align="center"><b>AUCTION PURCHASES</b> (Treasury Secretary purchases troubled assets through auction and such purchases exceed \$300 million)</p>
<p><b>Limits on pay:</b> Treasury Secretary Henry Paulson is directed to prevent “incentives” that encourage executives “to take unnecessary and excessive risks that threaten the value of the financial institution.”</p>	<p>No limits on pay</p>
<p><b>Clawback:</b> Bonuses or other awards based on inaccurate financial reports must be returned.</p>	<p>No criteria on clawbacks.</p>
<p><b>Severance:</b> Ban on “golden parachutes” for all senior executives.</p>	<p><b>Severance:</b> Ban on “golden parachutes” for executives hired after the auction</p>
<p>No tax deductibility caps</p>	<p><b>Cap on tax deductibility:</b> Firms participating in the Troubled Assets Relief Program through auction purchases will not be allowed to deduct executive pay that exceeds \$500,000 per year from their corporate income taxes.</p>

**DETAILED ANALYSIS:**

**Major shortcoming: No set limits on compensation**

The key bailout bill provision on executive pay merely directs Treasury Secretary Henry Paulson to prevent “incentives” that encourage executives “to take unnecessary and excessive risks that threaten the value of the financial institution.”

In other words, a bailed-out bank board of directors would be perfectly free to funnel \$10 million into its CEO’s pockets — unless Paulson decides that reward poses an excessive risk to the institution. The draft legislation, the “[Emergency Economic Stabilization Act of 2008](#),” does not define what might constitute an “unnecessary and excessive risk.”

“Congress missed a golden opportunity to use the leverage of the bailout to put tough controls on an out-of-control executive pay system,” says IPS Global Economy Project

Director Sarah Anderson. “Without clear limits on pay, the public is being asked to put their trust in Secretary Paulson, a man who made hundreds of millions of dollars as a Wall Street CEO, to decide what’s ‘excessive.’”

Several members of Congress had proposed fixed limits on pay. Sen. John [McCain](#) (R-Az.) and Sen. Diane [Feinstein](#) (D-Calif.) had called for capping compensation for bailed-out executives at the current compensation level of the U.S. President: \$400,000. Rep. Henry Waxman (D-Calif.) had proposed a [\\$2 million cap](#), while Rep. Brad Sherman (D-Calif.) had advocated a [\\$1 million cap](#) on “plain vanilla” salary compensation.

The Institute for Policy Studies 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 federal government’s lowest-paid employee.

“The most respected business thinker of the 20<sup>th</sup> century, Peter Drucker, considered the 25-to-1 ratio be the appropriate standard for the private sector as well,” notes IPS Associate Fellow Sam Pizzigati. “Pay gaps too wide, management experts like Drucker believe, undermine enterprise effectiveness and efficiency.”

The Institute will be urging the Congress and President who take office in January to better define the bailout bill’s limits on executive pay.

## **THE BAILOUT’S POSITIVES ON CEO PAY**

**Ban on “golden parachutes”:** Senior executive officers will not receive any severance payment if they leave the company that’s getting bailout dollars. Congress is right to ensure that executives who drove the country into this mess should not be allowed to walk away with massive payoffs.

**Cap on tax deductibility:** Some firms that participate in the bailout through auction purchases will not be allowed to deduct executive pay that exceeds \$500,000 per year from their corporate income taxes. This provision applies only to firms that sell troubled assets to the government through auction and those purchases exceed \$300 million.

The current tax code places a \$1 million cap on tax deductibility for executive compensation, but this provision has been meaningless in practice because it allows exceptions for “performance-based” pay. Most companies simply limit top executive salaries to around \$1 million and then add on to that total various assortments of “performance-based” bonuses, stock awards, and other long-term compensation. The draft bailout bill attempts to close this loophole by eliminating that exception for executives of bailed-out firms.

**Clawback:** Executives of bailed-out firms who receive bonuses or other awards that later turn out to be based on “materially inaccurate” financial reports will need to give that money back. This hardly seems like something that would need to be legislated, but when it comes to today’s corporate America, Congress is right to not rely on executives to voluntarily give up unearned gains.

## **BROADER CRITIQUE OF THE BAILOUT BILL**

For additional IPS analysis on the broader aspects of the bailout bill, see: [www.ips-dc.org](http://www.ips-dc.org). These materials include an [IPS Plan to Pay for Recovery](#).

## **CONTACTS**

**Chuck Collins** is a senior scholar at the Institute for Policy Studies where he directs the Program on Inequality and the Common Good. He was a co-founder of United for a Fair Economy, and his latest book, the co-authored *The Moral Measure of the Economy*, appeared earlier this year. Contact: [chuckcollins7@mac.com](mailto:chuckcollins7@mac.com), 617 308 4433.

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### **About IPS:**

For more than four decades, the Institute for Policy Studies has transformed ideas into action for peace, justice, and the environment. It is a progressive multi-issue think tank. <http://www.ips-dc.org>

### **About the Global Economy Project**

IPS' Global Economy Project has published 15 widely publicized annual reports on executive pay. The latest, *Executive Excess 2008*, released August 25, 2008, finds that five tax loopholes that benefit top executives cost taxpayers more than \$20 billion per year.

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