

## Corporate excess hurts us all

By COLIN READ, Everybody's Business

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— Alex Rodriguez will make \$39 million this year. Is he worth it?

Some would argue it is unethical to pay anyone an amount far beyond any reasonable person's capacity to spend. A-Rod could invest just one year's salary and receive a multi-million dollar annual income for the rest of his life. Millions of dollars a year should allow any human to live comfortably, one would imagine.

I am uncomfortable making such ethical judgments, though. Television contracts, endorsements and baseball tickets pay his salary. If we artificially lowered those payments, we would lose an important function of the free market system. Networks would not be able to bid and compete for the programs they want to air. Endorsers would not be able to entice the personalities they want to represent their products. And if we lowered baseball ticket prices, there would be many more people wanting to buy tickets than would be available. None of these solutions is practical.

Alternately, we could allow George Steinbrenner to keep the difference, making A-Rod less rich and Steinbrenner more so. That too fails to resolve one's ethical concerns.

I am unwilling to decree whether A-Rod, Steinbrenner, the networks, the endorsers, or the fans are more deserving of that revenue. So, I leave it up to the market to decide.

But, this is not a column about baseball salaries. I am instead concerned with what is everybody's business.

Congress is currently debating executive compensation policies for financial kingpins. Many of these individuals make far more than A-Rod, and can do much more damage than what might occur because of a fielding error or a bad turn at the bats. And that should concern us all.

While I do not suffer the ability of a person to extract what he or she is worth from any organization, this is not an unqualified acceptance. It assumes that their compensation scheme does not harm us, except in the immediate and direct effect the compensation has on those who pay the individual.

If I don't like A-Rod's salary arrangement, I can avoid buying products he endorses. And I can avoid watching Yankee games, which is actually easy for me because I am a Red Sox fan. However, the compensation schemes offered financial players has dramatically affected us all, even if we have no relationship with the companies that employ them.

This is because the compensation schemes have increased the overall level of market risk and has engendered activities that jeopardized the very underpinnings of global finances. That is too high a price for anybody to pay.

Many, especially those who receive the astronomical Wall Street paychecks, argue that it is only fair for

individuals to earn their worth by offering their services to the highest bidder. I would actually be fine with a policy that rewards those who make very smart and profitable decisions, under certain circumstances.

If these financial wizards are producing a better mousetrap, then we know the world will be at their doorstep. Those individuals that make markets work better and uncover previously unrealized opportunities deserve their just reward.

If these financial wizards are merely coming up with clever ways to usurp profits that would have normally flowed to pension plans and 401ks belonging to us all, then the net result of their wasted antics is cynicism in the market place. Such activities are unproductive at best and destructive at worst.

And if these wizards are able to get theirs when times are good, but suffer nothing more than being required to change jobs when their antics bring the \$60 trillion global economy to its knees, well, there is a special place in hell for those individuals.

The problem is that they have set up for themselves a compensation scheme that lavishly rewards success, but does not mete out equivalent penalties for dramatic failures in judgment and ethics. These individuals do not even suffer a bad conscience, having long ago rationalized to themselves that greed is good and the occasional global financial meltdown is simply the cost of doing big business.

If A-Rod falters and we decide he is no longer worth his salary, we can avoid Yankees games, and his contract can be bought out. We contribute knowingly to his salary, and we can choose to be unaffected by him, if we wish.

We have no such luxury with the financial wizards that earned millions and billions when times were good, and left the taxpayers to bail out their companies, and sometimes continue to pay their bonuses, when their recklessness placed us on the precipice of another Great Depression.

This quadruple whammy that cut our retirement savings in half, our home values by a third, doubled our federal debt, and tripled the number who are unemployed is an unfathomable price to pay for the recklessness of members and aspirants to the billion dollar club.

The problem, though, is that it is easy to pay bonuses when times are good, but much more difficult to demand refunds or impose penalties when their short-term mentalities cause long-term suffering.

It would likely prove difficult, and perhaps unlawful, to require these individuals to pay for their failures, even if they are lavishly rewarded for their successes. If we were to institute such a policy, I am sure the wizards would quickly discover ways to shelter their income and declare personal bankruptcy. Perhaps we could squeeze out a share of their future earnings, somehow. We would find, though, that such a garnishment would not even come close to the damage the Wizards of Wall Street have cost us all.

Even salary and bonuses reform would not completely solve the problem. Even those earning salaries of \$10 million per year, rather than ten or a hundred times that amount, can still take disproportionate risks that affect us all. Rather than money, they may be driven by adrenaline, arrogance or a perverted sense of narcissism. In a system that is unregulated, unscrupulous and unconcerned with the retirement savings of others, bad actors can still do tremendous damage.

I wish I had a solution. It probably comes down to lessons we learned in kindergarten. Perhaps there ought to be a Hippocratic Oath for financial wizards — first, do no harm. What we really need is a resurgence of training of ethics in our schools, especially our business schools, and a mechanism that forces the Wizards of Wall Street to feel our pain.

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