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SOWELL: Penny-wise politics

Thomas Sowell

COMMENTARY:

Congress is never more ridiculous than when it tries to look like it is serious.

In the midst of a major national financial crisis, what was one of the first things Congress zeroed in on? The pay of chief executive officers of financial institutions.

If all those CEOs agreed to work for nothing, that would not be enough to lower the bailout money by 1 percent. Anyone who was really serious would start with the 99 percent and let the 1 percent come later, if at all.

But however insignificant the pay of CEOs is economically, it is big stuff politically. Whatever the shortcomings of the Democrats, they are consistent in their message, and class envy is a great part of that message.

People who say that they cannot understand how CEOs in general get so many millions of dollars seem not to realize what a trivial thing they are saying. Most people do not understand most things. But that is no reason to have national policy guided by their ignorance.

I do not understand 1 percent of what there is to understand about the very computer on which these words are being written - nor about the Internet on which these words will be transmitted to the syndicate that distributes this column. I don't have a clue about how a syndicate is run, much less how much someone should be paid for running it.

What really sets some people off is the fact that a CEO who has mismanaged some corporation into losing billions of dollars is rewarded with a severance package worth millions.

Think about it. If the CEO's decisions are costing the company billions, it is a bargain to get him out the door immediately for millions, rather than having his departure delayed by either internal struggles or battles in the courts.

It is the same principle if you are married to someone who is impossible to live with. The divorce may cost far more than the marriage - and still be worth every cent of it.

But what about the "social justice" of it all?

Such questions seem to carry great weight with people who act as if they are God on Judgment Day. But one of the little overlooked differences between themselves and God on Judgment Day is that God does not have to worry about what is going to happen the day after Judgment Day.

Rewarding someone for being impossible to live with may offend our feelings, just as rewarding someone for mismanaging a company does. But the real question is what is the alternative and how will that alternative affect the future?

Politically imposed limits on the pay of CEOs is one of the most penny-wise and pound-foolish things that can be done. The difference between a top-notch CEO and a second-rate CEO can be billions of dollars on the bottom line.

That is what drives up the pay of CEOs. If you want someone who will be top-notch in running organizations as huge and complex as Fannie Mae or Freddie Mac, there is no point offering \$5 million a year if similar enterprises elsewhere are paying \$20 million for people with the kind of ability required.

Who is going to take a \$15 million pay cut to go run these enterprises, in addition to having to put up with politicians?

The money that can be saved by limiting CEO pay is chump change compared to the money that can be lost because you cannot attract top-notch talent.

Congress itself is a classic example of what can happen when penny-wise policies restrict the caliber of people who can be attracted.

No top-level doctor, lawyer, economist, engineer or CEO can become a member of Congress without taking a big pay cut, perhaps costing that person's family millions of dollars over a lifetime.

On the other hand, if you paid every member of Congress a million dollars a year, it would cost less than the cost of even a small government boondoggle, much less a whole agency.

It is not that the turkeys in Congress today deserve a raise. They don't even deserve their current pay. But that is the very reason for attracting different people. Cheap politicians are actually very expensive and the same principle applies to CEOs.

Thomas Sowell is a nationally syndicated columnist.