

Why the Fuss About Executive Compensation?

By Tibor R. Machan

Most executives draw pretty reasonable salaries, maybe from \$250,000 to several million per year, plus bonuses, depending on how the company is doing or how important the executive's contributions are expected to be. This isn't unlike how baseball and football players are hired and compensated, especially the stars.

Some executives are eagerly sought out and promised exorbitant pay, including bonuses above their regular salary, and all the details are agreed to from the outset, after pretty heavy negotiations. Contracts usually specify the terms, some of them unconditional and some conditional. If bonuses are promised no matter how the company is doing, this clause will be binding just as such contracts are binding in professional sports, so if a promising hire turns out not to have done well, payment must still be made.

With the current brouhaha about high payouts in bonuses to company executives whose companies didn't manage to be successful, it may appear to be unjust to pay them according to the terms of their contract, but it isn't. As the saying goes, a promise is a promise.

Where trouble arises is when a company is receiving public funds in order to remain in operation and a sizable portion of those funds is used to pay bonuses agreed to before the bailout. What has happened is that the company's authority to pay the bonuses has diminished, as the original contract was drawn up independent of the public intervention and subsidy.

That situation, of course, could also have been taken care of by the terms of the contract. It could have specified that whether or not the company receives bailout funds, the compensation to the executive will remain the same. Or the terms of the bailout could have included a provision that the original terms granting huge bonuses to executives needs to be changed for the bailout to go into effect.

Looking at the matter along these lines should clear up any confusion about the current furor of executive compensation. But, sadly, the executive compensation issue seems to be fodder for once again tearing down capitalism. And this time out of rank envy.

Why all the fuss about the high pay executives get as long as they aren't stealing it? It is sickening to see all these people fret about how well their fellows are doing. Oddly, in sports this attitude doesn't appear to be dominant: When Tiger Woods is doing well, people aren't demanding that he be brought down to make room for inferior golfers. The same applies to Lakers superstar Kobe Bryant or Olympic multiple gold medal-winning swimmer Michael Phelps.

But when CEOs make big bucks from their closed offices, never mind what goes into their work or how much aggravation and anxiety they endure, they immediately get attacked.

This is precisely what makes some of us concerned about Obama & Co. — this attitude of always looking at how others are doing, how well off they may be, and

how this situation cannot be tolerated. It is in fact the typical socialist mentality, one that was evident all over the Soviet bloc when I lived there — the snooping, the worry about how well others are doing. And that made some sense at the time, since socialism is a collectivist system in which the tragedy of the commons and a zero-sum game mentality prevail, with no clear way to tell who earned what or who should enjoy how much. But in a near capitalist society, agreements take care of this. If the CEO gets what was agreed to, that's the end of it ... unless, of course, the system has been corrupted by bailouts and subsidies and partial nationalizations.

When I came west from communist Hungary, I enjoyed all the wealth that surrounded me despite having hardly any of it myself. What a great thing that people can make lots of money and obtain what they need and want for themselves and their loved ones. Look at all those great homes, fabulous cars, exquisite eateries — you name it, and I found it all thrilling because it showed what all is possible for those who work hard and have a bit of luck.

But not long thereafter I realized, to my dismay, that even in the West, even in America, too many people are green with envy and would rather work on bringing down their fellows than work for prosperity themselves. Shame on them all!

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