GENERAL LEAVE

Mr. FRANK of Massachusetts. Mr. Speaker, I ask unanimous consent that all Members may have five legislative days within which to revise and extend their remarks on H.R. 1257, and to insert extraneous material thereon.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

SHAREHOLDER VOTE ON EXECUTIVE COMPENSATION ACT

The SPEAKER pro tempore. Pursuant to House Resolution 301 and rule XVIII, the Chair declares the House in the Committee of the Whole House on the state of the Union for the consideration of the bill, H.R. 1257.

□ 1720

IN THE COMMITTEE OF THE WHOLE

Accordingly, the House resolved itself into the Committee of the Whole House on the state of the Union for the consideration of the bill (H.R. 1257) to amend the Securities Exchange Act of 1934 to provide shareholders with an advisory vote on executive compensation, with Mr. WEINER in the chair.

The Clerk read the title of the bill.

The CHAIRMAN. Pursuant to the rule, the bill is considered read the first time.

The gentleman from Massachusetts (Mr. FRANK) and the gentleman from Illinois (Mr. ROSKAM) each will control 30 minutes.

The Chair recognizes the gentleman from Massachusetts.

□ 1720

Mr. FRANK of Massachusetts. Mr. Chairman, I yield myself such time as I may consume.

This is a bill to further the workings of the capitalist system of the United States. It has one very specific provision. It says that the shareholders, the owners of public corporations, will be allowed to vote every year in an advisory capacity on the compensation paid to their employees who run the companies.

Now, Mr. Chairman, some might think this is unnecessary. In a better world, it would be. But there is not now any clear-cut, uniform, legal right for the shareholders to get such a vote. Some corporations allow it, some do not. Some boards of directors allow it, some do not. In a recent case, the SEC ordered AT&T to allow such a vote, but it was because of certain circumstances. There is no general principle that allows it.

We do have, thanks to the Securities and Exchange Commission under our former colleague from California, Mr. Cox, a provision that I am sure many considered to be an intrusion into the private affairs of corporations, because without regard to the wishes of the corporations, the SEC under Chairman Cox has unanimously adopted rules that require corporations to put in the annual proxy form a chart of compensation for the top officials and an explanation of the theory of the compensation by which they are there.

Understand that this is a decision by the SEC to require corporations to do what they would not otherwise have done, because it only applies to those who haven't done it.

We add one simple fact here. The SEC has said that it does not have the power to go further and compel corporations to allow the owners to vote. Our bill simply does that. Our bill simply says, you will have on your proxy form, printed anyway, what the compensation figures are. There is no debate about how they will be presented. We require, if this bill passes, corporations simply to add to that a box that says ''I approve/I disapprove,'' and you can check it as appropriate. And the sole expense to the corporation is the ink in printing ''approve'' or ''disapprove,'' and the tallying along with the other tallying. There is no additional paper, there is no additional anything else.

We have had a situation in which people, including the President of the United States, have acknowledged that in some cases CEO compensation has become excessive. I believe that that is clearly the case. A study done by Professor Lucian Bebchuk at Harvard, unrefuted by the defenders of the current corporate compensation system, notes that the amount of corporate profits going to the salaries for the top three employees, the compensation to the top three employees has about doubled to the point where a year or so ago it was nearly 10 percent.

We are talking about real money. We are talking about money that goes to these top executives that could be used for other purposes. For example, when Mr. Nardelli of Home Depot received a $210 million good-bye kiss that had been written into his contract, when he was fired and given a $210 million consolation prize, Home Depot was at the same time announcing that they were putting $350 million into improving the stores. Well, suppose Mr. Nardelli had been sent out into the cold, hard world with only $50 million for the rest of his life. $160 million more would have been available to add to that $350 million for the stores, considerably more than a third. In other words, that was a real number. If $350 million can fix up the stores significantly, another $50 million or $75 million could have increased that by up to 50 percent.

The President himself has acknowledged that the compensation has gotten out of hand. But from the standpoint of the President, excessive CEO compensation, increased inequality in our economy, which is a part of this, global warming, they all have certain common elements; the President and some of his supporters have reluctantly acknowledged the reality of those things, having denied them for some time, but they appear to regard them as facts of nature that were neither caused by nor can be corrected by human action. We disagree with that.

Now, people have suggested that the salaries are too high and Congress should limit them. We reject that. This bill as we have presented it does not intrude into the process of setting compensation.

Mr. Chairman, some of the amendments offered would do that. There are amendments that would alter the effect of this, depending on the kind and amount of compensation. I think those are erroneous. I think some of my friends on the other side have become, in their zeal to defend corporate compensation levels, de facto, in a bad situation. They would be more intrusive.

All we say is this: The shareholders own the companies, and we believe the shareholders should be allowed to vote.

Now, some people have said that is up to the board of directors, why are you singling out compensation for the CEO? And there is a good reason. You can make arguments about corporate governance one way or the other. We are not going beyond one point here. The relationship between the CEOs and the boards of directors is very different than most of the relationships the boards of directors have. The CEOs and the boards of directors select each other. There is a lack of an arm's length situation there that we think makes it appropriate to single it out and let the shareholders vote.

It is only an advisory vote, that is true, and you will hear the contradictory argument that we are both too intrusive and not sufficiently intrusive into the affairs of the corporations. But we have more confidence in the boards of directors than some of our colleagues. Not completely, or we wouldn't have this bill. But we do not think boards of directors will likely disregard an advisory opinion from the shareholders and, therefore, we think that is an important input that the board should have. They have their ultimate responsibility, and maybe they will find some special circumstance that says, we can't follow in this case. The shareholders own the company, and we are simply giving them this right.

The last point is, and we have heard people say, well, you are interfering with the affairs of the corporation. Corporations do not exist in nature; they are the creations of positive legislative action. No corporation anywhere has powers except those that are given to it by a government, and governments tell the corporations what powers they have, what immunities they have, and what rules they follow. The SEC just intruded very deeply into the affairs of corporations by requiring the posting of the compensation.

We say that under current rules, including some State laws, and it varies from State to State, the shareholders don't have enough rights. And all we do here is empower the shareholders to vote on the compensation of the people who work for them.