

THE SODERQUIST CENTER

Feds' Power Grab: Part I: Federal Government Moves Into Corporate Corner Office

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Editor's note: This is the first article in a two-part series on the federal government's efforts to control corporations.

March's Ethics Matters Column described the federal government's plans to limit compensation for nonperforming executives. The column asked "What other decisions will government eventually demand to make for corporations?" The administration and Congress are quickly answering the question with unethical proposals for greater government control over corporations.

Abuse of taxation power

The federal government levies taxes to fund the government. The power to levy taxes is a necessary but dangerous power. As recognized by the U.S. Supreme Court, the power to tax is also the power to destroy.

American International Group's (AIG) executives received over \$165 million in combined bonuses even though the company lost billions through bad management. AIG received government bailout money to keep the company from failing. The bonuses rightfully angered the public, so some in Congress want legislation levying a 90 percent tax on the bonuses.

AIG' directors behaved unethically in awarding huge bonuses to nonperforming executives. Congress and the administration, however, failed to negotiate elimination of the bonuses in AIG's bailout package. Each blames the other for the mistake. Regardless of who is at fault, Congress behaves unethically in pursuing punitive legislation to tax bonuses already paid. It is morally wrong and probably unconstitutional for Congress to pass a special tax effectively destroying bonuses already paid.

Takeover of directors' duties

Corporate directors hire, evaluate and reward chief executives officers (CEOs). When necessary, they fire them. Directors also approve compensation for other high- ranking executives. Admittedly, some boards of directors failed to fire failed CEOs and approved excessive compensation for some nonperforming executives. It is not the government's role, however, to interfere in corporate internal management decisions when directors fail in their duties. Shareholders own the corporation and it is up to them to hold directors responsible for their decisions.

The Obama administration, however, recently took over the duties of General Motors' (GM) board of directors by forcing the resignation of GM's chairman and CEO Rick Wagoner. The administration claimed Wagoner's job as the price for the government's financial support.

Good reasons existed for Wagoner's dismissal. During his tenure GM's stock value dropped from \$70 to \$4 a share. Regardless of Wagoner's failures as an executive, it was the directors' jurisdiction to fire him and not the government's role.

Many people excuse the administration's action because of bailout money given GM. The government, however, goes too far in its other demands on GM. The administration demands that GM's new chairman and CEO, Fritz Henderson, write a viability plan for GM within only 60 days. It also expects within that time frame for GM to negotiate huge concessions from bondholders and the United Automobile Workers Union.

The administration also decided that Chrysler was no longer viable as a stand-alone company. It gave Chrysler 30 days to merge with Italian automaker Fiat.

To reassure potential GM and Chrysler automobile buyers, the administration says it will back all GM and Chrysler warranties. The administration gives no details on how the government will honor automobile warranties. Perhaps the car czar handles consumer complaints?

Even as Treasury Secretary Timothy F. Geithner admits the government is ill-suited to manage businesses, the administration is now in front-and-center in the automobile business.