Statement by Rep. Randy Neugebauer
Deputy Ranking Member, House Financial Services Committee
Executive Compensation Hearing
March 8, 2007

Chairman Frank, Ranking Member Bachus, I want to thank you for holding this hearing today.

When I first received the notice for today's hearing, I was intrigued by its title: "Empowering Shareholders on Executive Compensation." However, upon closer examination of the legislation before us today, it is impossible for me not to be disappointed by this title.

Indeed, even if we all agreed that executives at public companies are being paid too much, how does a "non-binding" vote "empower" the shareholder to solve this problem? Simply put, it does not.

In fact, this impulsive legislation can only serve to distract shareholders from their true power – which is the power to pull their investment from any company that acts recklessly in deciding executive compensation.

In addition to being a distraction, I also believe this legislation is out of step with the prevailing market forces. Currently, the SEC already requires executive compensation to be publicly disclosed. The market has demanded this transparency, and acts accordingly when determining the price per share of each public company.

It is also interesting to note that companies are already voluntarily enacting the same provisions contained in this legislation. The insurance provider Aflac, responding to shareholder's demands, recently established a non-binding shareholder vote on executive compensation. This same approach is being considered by no fewer than 50 other publicly traded companies.

On the witness panel today, I was pleased to hear Dr. Steven Kaplan, of the University of Chicago, clearly articulated why this bill is unneeded. I believe it is important to note an obscure, yet important, line of reasoning in his written testimony:

> "Last year, we saw an unprecedented volume of private equity activity. It is unlikely that the CEOs who did those deals would have chosen to go private and work for private equity investors if they were so overpaid as public company CEOs.
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> "It also is worth pointing out that in hiring the CEOs at higher pay, the private equity investors cannot have felt the CEOs were overpaid. This is true because private equity investors are strongly motivated to make profits. Any extra compensation to a CEO reduces the profit of a private equity investor. In addition, private equity investors control the boards of their firms, so the negotiations are arms-length."

While this statement highlights the power that market forces have on executive compensation, it also sheds light on a fascinating trend in our economy – the rise of private equity firms.

This move to private equity is driven by investors seeking higher earnings, without the restraint of over-burdensome government regulation. I believe this trend was initially sparked by an unintended, while not necessarily harmful, consequence of another impulsive piece of legislation approved by this committee.

As such, I urge my colleagues on this committee to act with restraint on this issue, and allow our free market, not ourselves, to influence executive compensation.