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Opening Statement of Rep. Henry A. Waxman
Committee on Oversight and Government Reform
Executive Compensation II: CEO Pay and the Mortgage Crisis
March 7, 2008

Good morning. Today the Committee is holding its second hearing on executive compensation. Our subject is the compensation of executives who preside over billion-dollar losses.

There seem to be two different economic realities operating in our country today. And the rules of compensation in one world are completely different from those in the other. Most Americans live in a world where economic security is precarious and there are real economic consequences for failure. But our nation's top executives seem to live by a different set of rules.

There's no better way to understand these two worlds than to look at real examples. Last year, Circuit City cut costs by arbitrarily firing its most successful retail sales people. Any employee in computer sales who was earning more than $16 per hour was fired. It didn't make any difference that some of the employees had years of service and superb performance records.

This was their first-hand lesson in market forces: every fired employee was given a chance to reapply for their jobs at lower pay. Those, unfortunately, are often the rules for typical employees. They can work hard, be loyal, and do everything right and they still lose ground.

The world for executives is quite a bit different. Last year one of our nation's highest paid executives was Ray Irani, the Chief Executive Officer of Occidental Petroleum. His total compensation was more than $320 million, which roughly comes out to $154,000 per hour.

By any measure, executive pay is rising rapidly and dramatically. The CEOs of the 500 largest American companies received an average of $15 million each in 2006 — a 38% raise in just one year. In 1980, CEOs were paid 40 times the average worker. Today they are paid 600 times more. And incredibly, 10% of corporate profits are now flowing to the top executives.

At first blush, it's hard to reconcile $154,000 an hour with $16 an hour. But CEOs and salesmen have different roles. And the argument, as I understand it, is that a CEO who adds value to the company and its shareholders is worth every penny.

I think there's merit to pay for performance. But it seems like CEOs hit the lottery even when their companies collapse. As the financial columnist Allan Sloan put it, "Even if you flame out on Wall Street, you still get to keep the money."

Today's hearing will examine this issue. The question we will ask is a simple one: When companies fail to perform, should they give millions of dollars to their senior executives?

Our particular focus is the debacle with subprime mortgages.

The mortgage crisis and credit crunch is devastating to both homeowners and our nation's economy. Over 7% of all mortgages are delinquent or in foreclosure, the highest rate ever recorded. Almost nine million families now owe more on their mortgages than their homes are worth.

Banks in the United States have written off more than $120 billion in assets. Mortgage companies have gone under or are on the brink. Thousands of Americans have lost their jobs and their homes. And the economic spillover is being felt throughout the world.

Three companies that gambled heavily on the subprime bet are Countrywide Financial Corporation, Merrill Lynch, and Citigroup. I want to thank the chairs of their compensation committees and their CEOs for being here today and for their cooperation.

All three companies have suffered enormous losses. Countrywide lost $1.6 billion in 2007 and its stock lost 80% of its value. Merrill Lynch lost $10 billion and its stock lost 45% of its value. Citigroup also lost $10 billion and its stock lost 48% of its value.

In light of that terrible performance, the CEOs of Merrill Lynch and Citigroup resigned last year. Mr. Mozilo, the CEO of Countrywide, is also making plans to step down if Countrywide is acquired by Bank of America.

But the pay they received from their companies and their stock sales was extraordinary. Any reasonable relation between their compensation and the interests of their shareholders appears to have broken down.

Mr. O'Neal left Merrill Lynch with a $161 million retirement package; Mr. Prince was awarded a $10 million bonus, $28 million in unvested stock options, and $1.5 million in annual perquisites when he left Citigroup; and Mr. Mozilo received over $120 million in compensation and sales of Countrywide stock.

The obvious question is this: How can a few executives do so well when their companies do so poorly?

Mr. Mozilo, Mr. O'Neal, and Mr. Prince are each classic American success stories. Mr. Prince was the first in his family to go to college. Mr. Mozilo started his company sitting at a kitchen table in a small New York City apartment. And Mr. O'Neal's grandfather was born into slavery and his parents worked several jobs at once to give their children the American dream. Mr. O'Neal himself worked his way through college by working at a General Motors plant.

Each of these men achieved incredible success through hard work and ability. And each was richly compensated when their companies prospered. On behalf of this Committee, I want to commend them and thank them for their many contributions to our country. The questions we ask today are not in any way intended to disparage their records.

But what we are trying to understand is fundamental to our nation's values. And it is also of central importance to the effective functioning of business and our economy.

Are the extraordinary compensation packages these CEOs received reasonable compensation? Or does the hundreds of millions of dollars they were given represent a complete disconnect from reality?

This isn't a hearing about illegality or even ethical breaches. It's a hearing to examine how executives are compensated when their companies fail. And it's a hearing to help us understand whether this situation is good for the companies, the shareholders, and for America.

The testimony today is something those Circuit City workers I spoke about a few minutes ago will be interested in. It's something the millions of Americans who are going through the pain of foreclosure will be interested in. And I think it's something every member of Congress should be interested in.