OPINIONS

Grouch finds good in economy

EYE ON THE PIE

Morton Marcus

My neighbor, Fred Fetid, was out weeding his garden.

"Howdy," I said. No answer from Fred.

"Another fine day," I offered.

"Don't you read the newspapers?" Fred demanded. "Nothing is fine at all."

"Blasted Indiana Legislature is playing games," he said. "Still voting along strict party lines, which means individual members have either no brains or no backbone.

"We wouldn't have all these fiscal problems if the Legislature had not boosted property tax relief for homeowners. They lowered local revenue and now don't have enough state revenue to cover the deficit."

"Now wait," I insisted, "folks wanted property tax relief."

"Folks," Fred sneered. "They want fried potatoes and candy, but it doesn't mean it's good for them. The Legislature is supposed to do what is good for the people, particularly when the people have been consistently misled, don't want to pay their fair share, and don't understand the issues.

"Look at those disgruntled 'folks' in Evansville who are upset because a local homestead credit was revoked. They are thinking only of their own narrow interests. They don't recognize that they have the only local government officials in the state with the guts to do the right thing."

"Hey," I said. "These are hard times; people don't want to see their taxes rise."

"They would if they understood that they are jeopardizing their future," Fred replied. "Then there are fools advocating giving money to colleges and universities according to their graduation rates. Don't they know that this will lead to even further dumbing-down of standards? We already take too many students into 'institutions of higher learning' who are unprepared.

"If we tie state support to graduation rates, we'll have the least-educated graduates in the nation," Fred asserted.

"I can see your point," I said.

He went on weeding, tearing at the pathetic plants trying to survive in a world committed to grass, that evil stubble that requires pollutants to keep growing and noisy machines to keep trimmed.

"I'm fed up," Fred said. "People keep saying our economy is down the drain. Our real economy is just fine. It's our financial system that's fouled up."

"But all these business closings and unemployment … " I started to say when Fred interrupted.

"Look," he said, "if the electricity goes off in your house, is there anything wrong with your house? Of course not. Your house is just not able to function as you expect it to. The serious trouble comes if you don't act fast enough to protect what you have.

"It's the same with credit markets. They supply the power for our economy. When credit markets don't work right, our economy slows down; it cannot provide us with everything and all the jobs we want.

"We still have the productive capacity we had before this recession," Fred said. "Business closings and unemployment give us an opportunity to refocus some of our resources. For example, Coachman Industries in Elkhart County is moving away from recreational vehicles to build fuel-efficient delivery and special vehicles. That's smart business.

"General Motors and Chrysler are being given an opportunity to redirect their resources, to modernize their activities and relationships with workers and dealers, customers and suppliers. When we get those credit markets in working order again, there's a good future for our country and our state."

"Fred," I said. "What's happened? You're showing positive tendencies. You ought to go in and rest until they go away."•

Marcus taught economics for more than 30 years at Indiana University and is the former director of IU's Business Research Center. His column appears weekly. He can be reached at mmarcus@ibj.com.

What price company leadership?

Second in a three-part series on executive compensation, in conjunction with IBJ's special report on the topic, which appeared last week. Next week: Why are executive pay talks kept under wraps?

VIEWPOINT

John Guy

A popular hypothesis is that competition for executive talent requires promise of high compensation. Another is that CEOs are worth it.

These assumptions are ubiquitous because boards are made up of highly compensated executives who accept as true that they are worthy of high compensation, and, therefore, should pay others well. Their compensation decisions are painless because board members spend other people's money, shareholders' money.

An example of self-interested opinion appeared in a Feb. 5 *The New York Times* op-ed, in which the writer said:

"… picking the wrong chief executive is an enormous disaster, so boards are willing to pay an arm and a leg for already proven talent. [Proposals to put] limits on the salaries at public companies, or trying to shame them into coming down, won't stop this costly competition for talent."

The writer was Reed Hastings, CEO of Netflix, declaring self-confidently that his talent justifies high compensation.

No study has proven the economic value of executive talent. No study has shown a consistent relationship between compensation and gross sales, earnings per share, growth of earnings, introduction of successful products, or improvement in stock price. No research has demonstrated that a successful, "proven" talent at one company achieves similar success when hired by another.

No one has proven, or demonstrated by example, that attracting "talent" is a function of compensation, or that the hiring process and offer of compensation took place in a competitive environment in which two or more companies were bidding for the services of a theoretically attractive candidate. Unlike free agents in sports, no executive appears to have been lured to one company, instead of another, by promises of high income, nor has his/her services been auctioned on eBay. The competition argument does not hold water.

Some argue that CEOs are not important for performance. Are linemen the most important people for an electric utility? What about research scientists at Merck, the imaginative animators at Disney, or the inventors of Oreos? Has history proved that the founding CEO of Conseco Inc. ever was worth $100 million in a single year? In 2000, was the Conseco board justified paying a signing bonus of $45 million to Gary Wendt, plus other benefits potentially adding up to $100 million, to lead a company that soon went bankrupt?

Could it be that the finest and most enduring contributions to society are made by people who are not highly compensated, such as ministers, teachers, professors, composers, reporters, historians, artists and statesmen? Does the imagination recognize a possibility that high compensation is negatively correlated to results because recipients become more concerned about money and status than about personal accomplishment?

Leadership is a unique and valuable talent. No organization can exist without it. But what is leadership worth? Rarely is the contribution of a CEO recognized in history (unless his name is inscribed on a building). Instead, society remembers leaders who campaigned for their jobs, and performed transparently, in public, every day.

Statesmen, such as governors and presidents, are the most talented leaders. Certainly, their responsibilities are greatest, but the governor of Indiana receives $95,000, far less than income received by people on the list of CEOs in last week's *IBJ*. A reason the governor is paid relatively little is that his salary is approved by legislative bodies, which are directly and publicly responsive to their shareholders, the voters. For the opportunity to earn $95,000 a year, the governor must campaign for a year or more at a cost of millions, funded voluntarily by people who think he is a good fellow.

Vilifying is easy. Change is difficult. In a free market, regulation or tax disincentives will not do the job. President Clinton tried by limiting tax deductibility of CEO pay to $1 million. The result was new compensation methods not defined as salary. No, the answer must come from board members. They must accept that their self-dealing, self-benefiting is an insult to the social structure of our nation.•

Guy is an Indianapolis money manager, certified financial planner and president of Wealth Planning & Management LLC.

LETTERS

Indy infrastructure needs investment

I guess one should not try to answer rhetorical questions, but [Bill Benner's June 22] column about the future intrigued me.

I remember when people openly wondered if a 150 mph lap would ever be attained at the Speedway. A lap in less than a minute seemed to be impossible.

Of course, Morton Marcus' [June 22 column] about NCR leaving Dayton further demonstrates that [what] once was thought improbable can happen.

Just like the future of the Pacers was questionable in 1983, the future of Indy is also at issue now. We have made choices and choices (by the Legislature) have been made for us that hamper our ability to fully compete as a city. We have been held back by doomsayers and naysayers for a long time. Every time the Convention Center expanded there were pundits claiming that the place would never fill. Every time they have been wrong.

Just like those who have criticized Eiffel for building a tower in Paris, there are those who criticize the stadiums and downtown development.

The Legislature simply has not allowed Indianapolis to be Indianapolis. The diversion of money away from the capital city is wrong. Indy should be the guiding light, not the subsidy provider for the rest of the state. Those using the city should pay their fair share.

We have known for a long time that the infrastructure of Indy needs attention. The new sewer bill is $5 billion. We have no meaningful mass transit or even a mass-transit plan. Private capital had to pay for the Clarian monorail. We cannot compete with other cities that have mass transit. As gas prices increase and the need for the multi-vehicle family changes, our workers will still have the cost of an additional car payment.

Politics trump economics in the short run. However, in the long run, economics prevail.

John Sullivan

Career development is retention tool

It is challenging to keep midlevel and upper-level top talent interested and engaged when dollars for raises, perks and other motivators are tight or nonexistent. The one thing that continues to motivate is career development, especially for anyone under 45.

But don't ignore the career development needs of your more seasoned staff. In this most competitive of times, every employee needs the latest tools to do their best.

Career development is often free (stretch assignments, special projects, other experiences) or relatively low-cost (books, training, professional organization memberships, conferences, leadership develop-

See **LETTERS** next page

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