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## Can We Please Stop This Crazyness Now?

### The Case Against Punitive Taxes on Banker's Pay

By Brian Dunn

April 6, 2009

It was a big week in Washington—lots of hoopla and press and plenty of opportunity to take pot shots at the “fat cats” on Wall Street. But, it's a new week and calmer heads must rationally get down to the business of saving our financial system.

Before we put all the blame on the Wall Street banker or trader who is targeted by the current tax proposal, there are lots of people to blame for this crisis, including:

- The people in banks around the world that created and replicated derivative products.
- The senior executives and Boards of Directors who didn't stand up and say no.
- The mortgage originators who gave loans to anyone who wanted one.
- Individuals who used these mortgages to buy houses they knew (or should have known) they couldn't afford.
- The rating agencies whose models assumed that housing prices would only go up.
- The pension funds and other investors that clamored for higher returns and didn't perform the required due diligence to ensure their investments were safe.
- The regulators who failed to protect us from these toxic assets.
- Congress, which passed legislation that facilitated deregulation and advocated universal home ownership.

There are probably lots more people to blame and, importantly, within each of the categories listed above, there are good guys and bad guys, people who had bad intentions and people who simply made bad decisions.

If Congress passes punitive bonus taxes in TARP-taking banks they will surely be punishing some bad and ill-intentioned people. However, by passing a punitive bonus tax on Wall Street, Congress would be using a sledge hammer to do a scalpel's job.

As a result they will be:

- Punishing honest, hard-working people who had nothing to do with the problem.
- Compromising banks' ability to attract and retain the key people needed to fix the problem.
- Jeopardizing the recovery by putting into question the reliability of the U.S. Government as a partner.



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- Potentially instigating a distracting debate on the constitutionality of such laws.
- Making foreign banks more competitive than our own banks, negating one of the few remaining industries where we have global dominance.

So, rather than grandstanding and trying to enact ill-conceived tax proposals, what should Congress do:

- Go after those individuals that took excessive risk and enjoyed excessive pay by creating and selling toxic derivatives. Through a special congressional committee, find these people, get to the facts, prove what they did was illegal and, as warranted, get our money back.
- Pay executives at TARP-taking institutions a rational base salary and real long-term incentives that would vest once tax-payer funds are repaid. Give them the same upside opportunity that shareholders and taxpayers enjoy.
- For other employees, let management, directors and regulators do their job and decide the right levels and form of compensation, provided that (1) the pay systems incorporate enhanced notions of risk; and (2) all parties are subject to increased standards of accountability.
- Pay Directors all in stock until government money is repaid.
- Acknowledge that people like Edward Liddy, Timothy Geithner, Lawrence Summers and Herb Allison did not create this mess and are working tirelessly to fix it for us. Give them the respect and support they deserve.

Many parties were involved in creating the current mess. That is beyond dispute. But, now is the time to move forward. Like it or not, we need qualified, hard-working bankers and government officials to help dig us out of a very big hole. Looking for scapegoats and playing the blame game isn't going to fix anything. ■

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**Brian Dunn** is the President of McLagan, a subsidiary of Aon Corporation. He is also the CEO of Global Compensation for Aon Consulting Worldwide. He specializes in incentive and executive compensation and has advised a number of major global institutions.

Mr. Dunn's articles have been published in *Benefits & Compensation Digest*, *Chief Executive*, *American Banker*, *Personnel*, *ABA Banking Journal*, *Compensation Planning Journal*, *Bankers Magazine*, *AsiaBanking* and *Equities Magazine*.