



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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## Opening Statement of Sen. Chuck Grassley, Chairman

Finance Committee Hearing, "Executive Compensation: Backdating to the Future/Oversight of current issues regarding executive compensation including backdating of stock options; and tax treatment of executive compensation, retirement and benefits"

Wednesday, Sept. 6, 2006

We all know that the American work ethic is unrivaled anywhere in the world. We have always wanted a better life for our children and our grandchildren. That is a part of our heritage that connects all of us together as Americans. Not only do we work harder than anyone else in the world, we also work smarter. Entrepreneurship, innovation, and technological advancement have been hallmarks of the American economy from our colonial times until today. We remember the spirit of invention of our founding fathers such as Benjamin Franklin and Thomas Jefferson down through the generations to Thomas Edison, Henry Ford, and today's Silicon Valley leaders and pioneers.

It is Americans' work ethic, coupled with our relentless thirst for innovation, that has led us to be the greatest economy that the world has ever seen. The greatness of our economy and our society also rests on some other fundamental principles. We are a capitalist society that believes strongly in the power of free markets to improve standards of living – not just here, but around the world. We believe in the "American dream" – the idea that we all have an opportunity to achieve as much and advance as far as our ability and our work ethic will take us. Underpinning that concept is the idea of fairness – that an honest day's work will mean an honest day's pay. The factory worker who puts in his eight hours (or more in many cases) knows that he will be paid for the hours he works – no more, no less. Similarly, a farmer who has worked hard in his fields all season takes his crop to market and gets paid the market price for that delivery date. He or she doesn't have the option to say, "I want to sell my crops for the price two months earlier when the market was better."

This is the concept of an honest day's work for an honest day's pay in our free market economy. Our capitalist system creates winners and losers, but it is supposed to do so in a way that is fair to all and from which we all ultimately benefit. These are our American values. And we as Americans also believe in the supremacy of the rule of law as the ultimate enforcer of our American values. When anyone threatens our fundamental principles, we must take it very seriously, or risk losing our greatness as a nation.

Today, we will hear about behavior at some of our largest companies that is such a threat. It is behavior that, to put it bluntly, is disgusting and repulsive. It is behavior that ignores the concept of an "honest day's work for an honest day's pay" and replaces it with a phrase that we hear all too often today, "I'm going to get mine." Even worse in this situation, most of the perpetrators had already gotten "theirs" in the form of six- and seven-figure compensation packages of which most working Americans can only dream. But apparently that was not enough for some.

Instead, shareholders and rank-and-file employees were ripped off by senior executives who rigged stock option programs – through a process called “back-dating” – to further enrich themselves. And as we have found far too often in corporate scandals of recent years, boards of directors were either asleep at the switch, or in some cases, willing accomplices themselves. We will hear today from the Justice Department, the SEC, and the IRS about how they are responding to this unfolding scandal and what we as a Congress can do to aid their efforts. We will also hear about executive compensation issues more generally – both from our panel of government witnesses and from a second panel of experts in the area.

It is important that we defend the American principles of capitalism and free market innovation, and it is also important that we defend the equally important American principles of fairness and the rule of law. These are not conflicting principles. They are the backbone of our nation. And those who violate them need to answer for that.