

The outspoken champion of the working class wants to compromise with Corporate America.

Barney Frank's Grand Bargain

By Peter Galuszka

Curriculum Vitae

■ Born March 31, 1940, Bayonne, N.J.

■ BA from Harvard College, 1962; JD from Harvard Law School, 1977

■ Aide to Boston Mayor Kevin White, 1968-71

■ Aide to U.S. Rep. Michael Harrington (D-Mass.), 1971-72

■ Member, Massachusetts state legislature, 1973-80

■ Member, U.S. Congress, Fourth District, 1981-present

Barney Frank has always been an outsider. Growing up in Bayonne, N.J., in the 1940s and '50s, he was a Jewish kid in a Catholic neighborhood who also happened to be left-handed. He later discovered that he was homosexual in what was then a very straight and hostile world. "I'm used to being in the minority," he once told an interviewer. "I'm a left-handed gay Jew. I've never felt, automatically, a member of any majority."

As a young man, Frank, now 67 and chairman of the powerful Financial Services Committee of the U.S. House of Representatives, helped out at the truck stop his father owned off the New Jersey Turnpike. He spent hours listening to the truckers' tales of blue-collar life, on and off the road. Those conversations helped him form a special skill: communicating complex political and economic concepts to people who don't have the benefit of a higher education. Empathizing with the truckers, Frank developed a world view that embraces the working class.

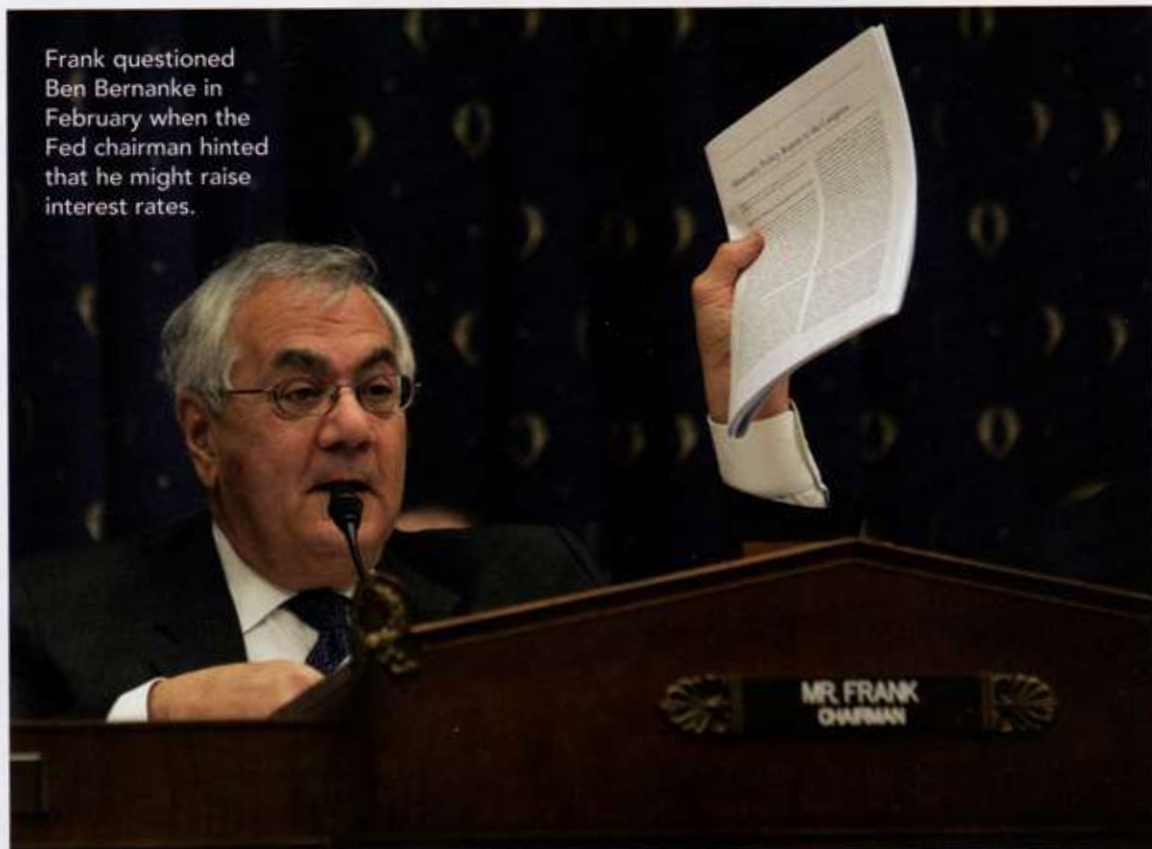
That world view is ironclad and has prevailed throughout Frank's variegated career. He has been an academic at Harvard, a Young Turk in the admin-

istration of Boston Mayor Kevin White, and a protégé of the deal-making House Speaker Thomas P. "Tip" O'Neill Jr. Since 1981, he has been a highly regarded, if controversial, congressman who refuses to apologize for his views. Democratic victories in the House of Representatives last fall landed him in the chairman's seat on Financial Services.

From this position, Frank will play a major role in drawing up legislation and setting the political agenda on corporate governance issues of all types. Outraged at what he considers hubristic excess in executive pay, he promises a tougher line on remuneration. Populist-minded, he is committed to backing shareholders as they seek greater influence over board selection and a say in limiting C-suite perquisites. With Frank in charge, the little guy is likely to get a break.

Will Frank, who declined to be interviewed for this story, be a bull in the china shop when it comes to setting governance policy? That is the fear among some directors and corporate executives, who already feel horsewhipped by post-Enron laws such as Sarbanes-Oxley. An in-your-face liberal is

Frank questioned Ben Bernanke in February when the Fed chairman hinted that he might raise interest rates.



AP PHOTO/SUSAN WALSH

the last person they want.

Verbally, Frank is already on a tear. When Christopher Cox, chairman of the U.S. Securities and Exchange Commission, gave the business lobby a surprise Christmas gift by softening rules on disclosing executive pay, Frank was quick with a stinging rebuke. He did likewise when the full sumptuousness of the exit package handed to Home Depot's dismissed chief executive, Robert Nardelli, was disclosed. And when *The Wall Street Journal* reported in January that hedge fund managers routinely "rent" shares of companies to play out self-serving strategies, Frank was horrified. "We were meeting with him on the crowded floors of the Capitol that day, and he just couldn't get over the story," recalls Bob Lehner, director of public policy at the Business Roundtable, who also dealt with Frank when he was the Senate's chief of staff.

Yet a closer look at Frank suggests that despite these professions of outrage, he will take a measured approach to leading Financial Services. Acquaintances say that, ultimately, his steel trap of a mind always reins in his emotions. His brain won't let him allow dogma to send the U.S. economy south.

Forget the Labels

"Chairman Frank is a very thoughtful man and a sophisticated policy player. Labels like 'liberal' don't have much consequence," says Damon Silvers, associate general counsel for the AFL-CIO. "He's aware of the linkage between good corporate governance and a good economy. How do we put our country in a good place globally? The country desperately needs leadership that thinks this way."

Then there's the fact that by far the biggest contributors to Frank's political campaigns have been mem-

bers of the financial services sector, which is strongly represented in Massachusetts. In the 2006 election, finance and insurance companies—including audit giants KPMG, Ernst & Young and PricewaterhouseCoopers—forked over \$519,434, compared with the \$90,498 that came in from organized labor.

Perhaps reflecting his dual loyalties, Frank has introduced a new twist into corporate governance discussions with his so-called “Grand Bargain,” which is designed to find common ground between the working man and management. Although it is somewhat vague, the compromise would involve business’ tolerating greater union organization, min-

imum wage hikes, housing aid and protections for American workers against free-trade job loss. In exchange, federal legislators would be sensitive to Corporate America when writing trade bills by taking into consideration business’ views on immigrant labor and other employment issues. They would also ease up on costly rules such as Sarbanes-Oxley compliance. Frank intends to hold hearings on the Grand Bargain this year to generate support for the conversation and to fine-tune its specifics. It has the full support of House Speaker Nancy Pelosi.

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What troubles some corporate executives and directors is that Frank’s ascendancy to such a powerful Hill position comes at a time when major shifts are taking place in corporate governance. Union pension funds, social activists and environmentalists are demanding more say in selecting directors and setting company policies. Although the Enron-age scandals are slowly shrinking back into history, business still routinely suffers a public relations black eye. Voters can connect viscerally and easily with issues such as executive compensation, as personified by the Nardelli drama, or the widespread but dubious practice of backdating stock options.

Frank has already weighed in on pay-package

rank-and-file workers were laid off.

The bill did not pass, although Frank intends to introduce a modified version this spring. One problem is that legislators are all too aware that their best-intentioned pay reform efforts can have unintended consequences. In 1992, Congress wanted to tie executive pay more closely to performance and changed the tax codes in an attempt to do so. The result was stock option grants, whose use and abuse has been enormously controversial.

A Narrow Window

It is unclear whether and how Frank would push for new policies on executive compensation from the chairmanship of Financial Services—the very committee that came up with Sarbanes-Oxley. Committee staffers say that Frank has been preoccupied with other matters before Financial Services, such as housing reconstruction in the aftermath of Hurricane Katrina, and hasn’t really broached many corporate governance issues yet.

There may not be much time, says Lehner of the Business Roundtable. Lehner believes Frank has a window of opportunity that will stay open only until this August. After that, the House and Senate will

You Scratch My Back...

The Grand Bargain asks for concessions from labor and management. The terms are still vague, but here’s how each side stands to benefit:

Business

- Trade bills written with sensitivity to U.S. companies
- Relief on Sarbanes-Oxley compliance
- Flexibility on immigrant labor
- Pro-globalization policies

Workers

- More union organization
- Minimum wage hikes
- Housing aid
- Protection against trade-related job loss

become caught up in presidential campaign politics, and it will be hard to get much legislation done. Moreover, Frank may not have the overall votes to accomplish much. "I think it will be very difficult for him to make a profound difference," says Peter Morici, economics professor at the University of Maryland and former director of economics at the International Trade Commission. While the Democrats have a slim majority in the House, they control the Senate by all of one vote, he points out. Even if Frank can muster a major legislative offensive in a tight time frame, getting something radical approved will likely be nearly impossible.

Perhaps for that reason, many observers are betting that Frank will not launch a broad assault on the corporate status quo. Instead, despite his strongly held views, he is more likely to take a high-altitude approach as chairman of Financial Services.

quid pro quo items that they say should be addressed individually. Silvers, on the other hand, says that Frank's idea is more than merely swapping one rule or regulation for another. "The idea is, if business wants their list of serious reforms to be even talked about, they are going to have to talk about the well-being of the vast majority of the country that works for a living," he says. Lehner says that if nothing else, the Grand Bargain should facilitate dialogue.

Dialogue with Frank is by all accounts stimulating. Rated the "brainiest" and "funniest" member of Congress by *Washingtonian* magazine, he has academic credentials that few federal legislators possess. His insights are often peppered with wit. Yet he can be combative; Frank has been called abrasive, and he is capable of slamming a telephone down on a caller.

Some Hill-watchers opine that this touchiness is the result of enduring decades of homophobic bias

Some business advocates reject the idea of bundling *quid pro quo* items into a package. Others welcome the dialogue.

"He's looking at process solutions on issues such as executive pay," says Silvers of the AFL-CIO. "He's trying to figure out how not to do a director's work for him, but to make it comfortable for a director to do his job."

Nevertheless, Lehner of the Business Roundtable describes his organization's relationship with Frank as a "fundamental but respectful disagreement" on key issues of governance such as shareholder democracy. "He believes it is shareholders who should approve compensation and shareholders who should approve directors," says Lehner. "We believe that it is a critical board function to pick nominating committees. Democracy sounds good, but that's not how corporations are designed. They are private entities. We have talked about this with [Frank], and he's agreed to talk about it."

Views on the Grand Bargain tend to diverge along predictable lines. Business advocacy groups have said they will refuse to wrap up a bundle of

and abuse, particular after he became the first U.S. congressman ever to come out publicly. Former House Majority Leader Dick Armey once called him "Barney Fag" during an interview. A conservative blog recently titled a story "The Gay Drama Queen in Congress?" The hate speech was fueled by a scandal in the late 1980s, when Frank's former personal driver was found to be running a male prostitution ring from Frank's Capitol Hill apartment. Frank turned himself in to the House Ethics Committee, saying he knew nothing about the ring (although the driver later claimed this was untrue). In 1990, the committee recommended that Frank be formally reprimanded. The scandal shocked even Frank's steadfast supporters. The normally sympathetic *Boston Globe* demanded his resignation.

But in a testimony to his political skill and personal integrity, Frank held fast, took his lumps and rode out a scandal that would have ended the career of a lesser public figure. He managed to salvage his repu-

tation, and even political opponents praise his personal forthrightness. "I always found Barney a delight to deal with, regardless of whether I agreed with him or not. There was never any subterfuge with Barney," says Robert Barr, a conservative former congressman from Georgia who served with Frank on the House Judiciary and Financial Services committees. Barr has one complaint: "He talks so damned fast. I'm a Southerner, and I can't keep up with him. Once I comprehend one idea, Barney's flown on to the next one."

The brain-in-overdrive was what got Frank from gritty Bayonne to Harvard College. He graduated in 1962 during the John F. Kennedy "Camelot" days, when idealistic liberal activists from the Northeast were poised to take on big issues such as civil rights, poverty and America's emerging power in world politics. Frank earned his master's at Harvard, where he taught undergraduates, but left in 1968 just a few credits shy of his doctorate. That year, he became chief assistant to Boston Mayor Kevin White, who was taking on the old city's many problems, from education to urban blight.

Classmates with Cox

In 1972, Frank began his legislative career at the Massachusetts statehouse, where he served for eight years, honing his bill drafting and parliamentary skills and becoming a major player in the state Democratic Party's left wing. But being a pol on Beacon Hill was only Frank's day job. Simultaneously, he was attending Harvard Law School—coincidentally, at the same time as Christopher Cox, who was studying at Harvard Business School, too. The pair apparently didn't know each other in Cambridge and couldn't be more different. Cox is a buttoned-down Midwesterner turned Southern Californian, who hit his stride as a disciple of Ronald Reagan. Frank was then a noisy, disheveled leftie. He was a solid member of the Massachusetts Democratic machine that had developed such names as John W. McCormack, the Kennedys and Tip O'Neill. So, when Father Robert Drinan, a liberal congressman from the Bay State, was ordered out of office by Pope

John Paul II, who disapproved of priests holding political office, Frank easily slipped into his slot.

On Capitol Hill, he built his reputation as hard-working and populist-minded. Frank never backed away from a fight and, indeed, provoked more than a few. "He will always challenge your position and force you to articulate your views better. He is a very, very accomplished and worthy adversary," says Barr, who spent many late nights arguing over policy with Frank on committee work.

Frank's reputation as something of an icon in the gay rights movement grew as well. Conservatives kept pouncing but Frank pushed back, even going so far as to invent the "Frank Rule," whereby he has sworn to expose any secret homosexual in Congress if that person supports legislation unfriendly to gays. In 2004, Brooklyn filmmaker Bart Everly released a short documentary about the congressman titled *Let's Get Frank*. It traced his political career, placing him in the heroic light of a pioneering homosexual who must work with such cultural opposites as Senator Trent Lott of Mississippi, who compares homosexuality with alcoholism or kleptomania.

Frank, says Everly, "is a very fair person. He believes in making level playing fields and is concerned about the less fortunate. In college, he was registering voters in the South or working with the elderly in Boston." Such activism doesn't typically sit well with Corporate America. "I think from a philosophical view, when the Republicans are running things, they tend to give more deference to the free market," says Lehner of the Business Roundtable. "The Democrats back more regulation and have more sympathy with activists."

For the moment, Frank doesn't have the votes to take any truly radical steps. That could change if the Republicans continue imploding and the Democrats take the White House in 2008. Yet even in a Washington dominated by Democrats, Frank is likely to approach corporate governance as a moderate. He's too smart to threaten his party's influence by wrecking the national economy. And with his committee chairmanship, he's most certainly not an outsider any more. ■

Banks Gave Frank More...

- UBS
\$26,600
- State Street Corp.
\$17,000
- FMR Corp.
\$13,500
- JPMorgan Chase
\$13,500
- Ernst & Young
\$11,750

... Than Labor Unions Did

- AFSCME
\$5,000
- Machinists and Aerospace Workers
\$5,000
- Teamsters
\$5,000
- Carpenters & Joiners Union
\$2,500
- United Food & Comm'l Workers
\$2,500