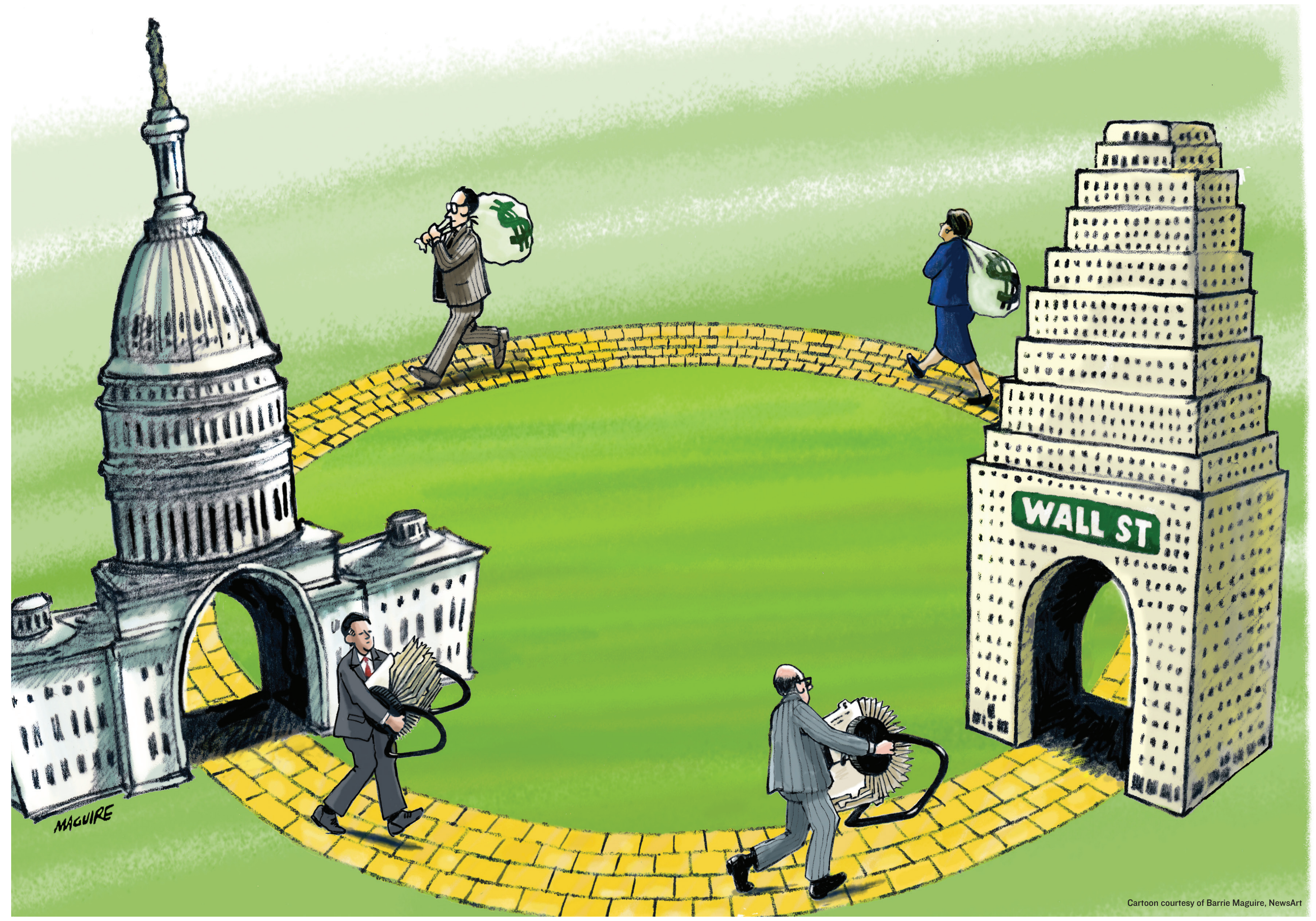
# From Industry to Government and back to Industry

## Ending Revolving Door Practices in Financial Services



Cartoon courtesy of Barrie Maguire, NewsArt

**By Cynthia Williams**

When government and corporate shoulders rub on Capitol Hill, it seems that benefits abound for everyone except constituents. Former members of Congress cash in as lobbyists, defense contractors work their way into Cabinet positions and bank executives step into financial regulator positions overseeing their former firms.

This phenomenon, known as the revolving door, involves the back-and-forth movement of federal employees between corporate jobs and high-level government appointments. It affects multiple industries and government agencies. The constant rotation of personnel between the public and private sectors blurs the lines of influence and allegiance – and endangers the independence of government regulators.

The financial sector is rife with this behavior. Former Treasury Secretary Robert Rubin and Henry "Hank" Paulson, who later was appointed to that office, both went from Goldman Sachs to government. In April, former Federal Reserve Chairman Ben Bernanke signed on as senior adviser to Citadel, a multibillion-dollar hedge fund. A 2013 study by the Project on Government Oversight found that former employees of the U.S. Securities and Exchange Commission (SEC) routinely work with companies to circumvent – and influence – the agency's regulations.

Most remarkably, Wall Street encourages the process by paying giant bonuses to top employees who leave to enter government service.

The Financial Services Conflict of Interest Act – to be introduced in Congress this spring and on which Public Citizen is consulting with lawmakers – aims to stop this circulation of friends in high places. The law focuses on the financial services industry and would end revolving door practices and the incentives that support the harmful pattern.

"We know why such a sweeping anti-corruption proposal already is unpopular on K Street and Wall Street, and with all corporate interests that want to extend their hold over regulatory agencies," said Craig Holman, government affairs lobbyist in Public Citizen's Congress Watch division. "Simply put, the financial services sector reaps profits when it captures the regulatory agencies that oversee it."

### The wrong incentives for public service

The finance industry's revolving door problem was spotlighted recently in the confirmation of current Treasury Secretary Jacob Lew. The employment contract of Lew, a former Citigroup Inc. managing director, guaranteed him a "golden parachute" bonus of not less than $1 million should he secure a high-level government position.

Along with Citigroup, The Goldman Sachs Group Inc. and Morgan Stanley offer multimillion-dollar incentives for current employees to quit their jobs and enter government service.

While a federal law prohibits government employees from accepting payments from private companies, the law has been interpreted by the courts to apply only when the executive actually becomes a government employee – and does not apply prior to that day. Thus, the bonuses are awarded a day or two beforehand.

The bonuses encourage the movement of the company's executives into government regulatory agencies that oversee the company – and certainly ease the pain of the severe pay cuts senior bank executives take when they leave Wall Street for Washington. But they also encourage allegiance to the firm the employee is leaving, creating a conflict of interest that threatens the integrity of government regulation.

Federal employees regularly leave the public sector for private positions, but corporations' use of pay packages to entice their employees to enter public service breeds "regulatory capture." The term reflects the hold Big Business gains over government agencies through practices like embedding friendly former employees, who often greenlight policies skewed toward protecting Wall Street and corporate bad actors.

### Small steps by the executive branch

The Obama administration attempted to head off revolving door scandals through its "ethics executive order," issued in January 2009. The unprecedented policy, supported by Public Citizen, required all presidential appointees to sign an ethics pledge that they would not take any official actions that would directly and substantially benefit their former employers or clients of the previous two years.

However, the executive order is vulnerable to repeal by the next president, and it has not prevented all conflicts of interest in the financial sector.

### Sealing the deal in Congress

In May, U.S. Sen. Tammy Baldwin (D-Wis.) is expected to introduce the Financial Services Conflict of Interest Act, which would codify the prohibitions of the ethics executive order into law for the financial services sector. And it would extend much further than the executive order.

To stop corporate incentives that perpetuate the revolving door, the law would not allow any business to give special "golden parachute" bonuses to employees specifically rewarding them for taking a government job – before, during or after accepting a position.

Also, financial services regulators would be required to sign an ethics pledge promising that while in government, they will not take any official actions that directly and substantially affect their former employers or clients of the previous two years. If financial services regulators are seeking private sector employment, they would have to notify the Office of Government Ethics and would not be allowed to take official actions involving potential employers with whom they are negotiating future employment.

In addition, during the two years after financial regulators leave public service, they would be banned from conducting any lobbying activity or making lobbying contacts on behalf of a paying client.

The proposal also includes stipulations specifically for federal bank examiners and their supervisors – who monitor big banks' compliance with laws and regulations – and procurement officers charged with awarding contracts. For examiners and their supervisors, employment with any financial institution they oversaw – or any firm representing it – would not be an option for two years after leaving the federal government. Also for two years, procurement officers would be prohibited from taking jobs with any company, division, affiliate or subcontractor to which they have awarded a contract.

### Urging the bill's passage

When the bill is introduced, Public Citizen will champion it in Congress and with the media. The organization also has urged its supporters to contact their members of Congress to back the proposal – and, in partnership with organizations such as the AFL-CIO and the Project on Government Oversight, it is mobilizing a groundswell push for the act.

Working on many fronts, Public Citizen has pressed the Government Accountability Office to study these large bank pay packages and is calling on big banks to change their pay structures.

"The ethics executive order has led to fewer conflict-of-interest scandals for the current administration," said Holman. "It's time to seal off the revolving door and leave public service to those with honest incentives to do that work."