As jobs and wages decline

Wall Street bonuses expected to soar again in 2005

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Bonuses on Wall Street are expected to soar this year according to two reports released this week. These bonuses make up the bulk of compensation for top executives and managers of banks and brokerages and are rising as a result of frenzied activity in the hedge funds and mergers and acquisitions markets, as well as sharp increases in energy prices.

An article in the *Wall Street Journal* on November 8 reported that Wall Street executives are expecting a “bonus bonanza” this year. According to the *Journal*, citing data from a report to be released by the executive search firm Options Group, compensation is expected to increase by 20 percent, with some bankers and traders expecting even higher windfalls.

The *Journal* reported, “Investment bankers, who arrange mergers and stock offerings for corporations... are expected to be among the Street’s biggest winners this year, with compensation rising 20% to 25% on average, according to the study. For an investment banker at the managing director level, a senior post on Wall Street, that will translate into an average pay package of between $2.2 million to $3.3 million this year. A global head of investment banking could pull in on average anywhere between $7 million and $10 million.”

Fueled by a surfeit of cash in corporate coffers and relatively low interest rates worldwide, global merger and acquisition volume surged to $2.3 trillion by the beginning of November. This is the most active merger and acquisition market since 2000, at the peak of the US stock market bubble when such activity reached record highs. Mergers and acquisitions are often accompanied by cuts in labor costs, including layoffs, for which executives reward themselves as well as their advisors and bankers on Wall Street.

Another factor behind the surge in Wall Street bonuses is the sharp increase in energy prices, which has hurt consumers but has translated into gains for commodity traders as well as the energy companies themselves. The *Journal* reported that bonuses for commodity traders could increase by an average of 30 percent over 2004. It quotes Options Group co-founder Michael Karp as noting, “There was lots of volatility in this area and a lot of people made a lot of money here.”

Citing a report put out by Johnson Associates Inc., a compensation consulting firm, the *New York Times* reported November 8 a somewhat lower increase for investment bankers, of between 10 and 20 percent.

The *Times* noted, however, “The big winners could be traders involved in commodities and energy, in particular, proprietary traders who deal in those two high-octane growth areas. They could receive pay increases of 40 percent to 50 percent,” the newspaper wrote, “with some walking away with $15 million to $20 million each, according to one investment banking executive who is prohibited by his firm from commenting on compensation issues.”

Big gains are also expected among those who are engaged in the booming hedge fund trading sector. Hedge funds have become a principal tool for wealthy investors, with assets of about $1 trillion. The funds have seen increases in asset value of about 17 percent annually in recent years. They are a highly speculative branch of the securities trading market, usually employing computer models to extract profits from temporary fluctuations in the stock and derivatives markets.

The *Times* quotes Guy Moszkowski, a securities industry analyst at Merrill Lynch, as noting that for four of the top firms—Goldman Sachs, Lehman Brothers, Bear Stearns and Morgan Stanley—"compensation should be a record at $32 billion in 2005 versus $24.7 billion in 2000." These firms are involved in many of the different activities that have been especially lucrative over the past year.

Living standards for a tiny section comprising the Wall Street elite are booming. Julian Niccolini, managing partner of the Four Season's Restaurant in New York, explained to the *Journal* the impact of the Wall Street bonanza from his own perspective: "It's white-truffle season and people are paying as much as $180 for a main course. The economy seems to be going in the right direction and I think this is the most money people have ever had."

Well, the most money that *some* people have ever had. Indeed compensation on Wall Street has seen a substantial recovery since declines in 2001 and 2002, though average compensation has not yet reached the peaks of the stock market boom of the late 1990s and 2000. However, the much-touted economic recovery of the past two years has not led to gains for the broad majority of the population.

There has been no substantial improvement in the jobs market over the past two years. The remaining sectors of the economy that have had relatively high-paying and secure jobs—such as the auto and the airline industries—are seeing a sustained assault on wages and benefits.

According to a US Census Bureau report released on August 30, the number of Americans living in poverty increased in 2004 by 1.1 million. The poverty rate, now 12.7 percent of the population (37 million people), has increased for four consecutive years from 2000 to 2004. Even this figure understates the level of poverty in the US, as the official poverty level is much lower than the income required to meet basic needs.

Other figures also document the precarious financial position of growing number of Americans: rising debt levels, persistent unemployment and underemployment, rising requests for emergency food assistance and increased homelessness.

Real income has declined over the past year for most workers, who have seen stagnating or declining nominal wages together with a sharp growth in consumer prices, especially for energy. The situation is expected to get much worse as the winter months produce home heating bills that are up to 50 percent more than the already steep prices of last year.

The huge profits reported by energy companies in the past quarter—including a record $9.9 billion pulled in by ExxonMobil alone—have come directly out of the pockets of ordinary consumers who have faced mounting prices for gasoline and natural gas.