Christmas cheer for Wall Street executives

Goldman Sachs boss gets $53.4 million bonus

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Investment bank Goldman Sachs rewarded its chief executive Lloyd Blankfein with a bonus of $53.4 million this week. Blankfein, who became the firm's CEO in June 2006, received $27.3 million in cash and the rest in stock and options.

Aside from Blankfein, 11 other Goldman Sachs executives will be given a total of more than $150 million in bonuses this year. Co-presidents Gary Cohn and Jon Winkelried were awarded $25.7 million in bonuses each. The firm's chief financial officer, David Viniar, received a $19.1 million bonus; Suzanne Nora Johnson, a vice chairman, $15.4 million; John Weinberg, also a vice chairman, $15.1 million; Chief Administrative Officer Edward Forst, $16.5 million; co-general counsels Gregory Palm and Esta Stecher, $8.96 million and $8.29 million, respectively. Three other company officials received smaller amounts.

Blankfein's compensation tops the $40 million bonus that Morgan Stanley announced last week it was paying to CEO John Mack, the previous record for a Wall Street chief executive. Lehman Brothers recently disclosed that it would pay its chairman and chief executive, Richard Fuld, $189 million over ten years; he was also awarded $11 million in options this week.

Blankfein was eligible to make $87 million, under a new compensation plan for Goldman Sachs' top 25 executives. According to the agreed-upon formula, the management committee may pay as much as 0.6 percent of pretax earnings to each of the top company officials.

Steven Pearlstein of the *Washington Post* commented, "Add it all up, and for 25 souls that works out to 15 percent of the profits of a firm with 26,400 other employees and millions of shareholders."

Shareholders approved the plan in March 2006, which also eliminated a $35 million maximum on bonuses in cash and restricted stock.

Goldman Sachs, as previously reported, is paying out $16.5 billion in bonuses this year, another record. Lehman Brothers and Bear Stearns have indicated they will each pay out some $12 billion in compensation. The five largest US securities firms—Goldman Sachs, Morgan Stanley, Lehman Brothers, Bear Stearns and Merrill Lynch—are distributing $36 billion in bonuses this year. In New York City alone, the state comptroller, Alan Hevesi, forecast that the securities industry would hand out $23.9 billion in bonuses, an increase of 17 percent over last year.

That figure is greater than the 2005 Gross Domestic Product of 104 individual countries, according to International Monetary Fund figures, including Sri Lanka, Lebanon, Costa Rica, Kenya, Uruguay, Latvia, Yemen, Tanzania, Ghana, Bolivia and Senegal.

Business Day noted December 21, "As high as Blankfein's pay is, it does not come close to the compensation levels at the pinnacle of the hedge fund industry. Each of the 10 highest-paid hedge fund managers made more than $200 million last year, according to a report in May by *Alpha* magazine."

Numerous commentators in the business press, financial analysts and pro-"free market" web sites hailed the massive handouts.

"That is the right amount," Jeanne Branthover of Boyden Executive Search in New York told *Business Day*. "Clearly, these numbers are big, but they could be bigger. This is something that's record-breaking, but any more than this might be questionable."

"Because investment banking is so strong right now we're seeing very large paydays across Wall Street, and of course very large paychecks for those at the top of the firms," James Ellman, president of Seacliff Capital in San Francisco, told the press. "If the heads of the companies are generating very strong share performance, then investors really shouldn't have much to complain about."

"We work very hard here," said Peter Rose, a Goldman spokesman cited in the *Boston Globe*. "The reason for our

success comes from our people, and we want to reward them." Rose told the newspaper an employee's earnings are "determined by the overall performance of the firm; the performance of the department an employee works for; and individual performance."

The top traders at Goldman Sachs, wrote Henry Blodgett in a *New York Times* op-ed piece published December 20, "reportedly made $17,000 to $33,000 *an hour*." (Emphasis added.)

Public outrage over the figures has prompted a number of newspaper columnists and even television broadcasters to issue words of caution. The headline of Pearlstein's article in the *Post* reads, "Wall Street's Season of Excess."

David Weidner at *MarketWatch* entitled his piece, "Make No Mistake, Pay is Out of Control: This year's bonuses cast harsh light on an inequitable system." Weidner wrote, "There is a growing sense that things have gone too far. Pay is out of control. The 'shame' factor of new disclosure rules was supposed to help curtail unseemly rewards. Now it seems to refer to the shame of having another CEO beat your bonus by a million or two . . .

"Compare the average [Wall Street] bonus to the real median US household income of $46,326. Keep in mind that's a full year's income. Between 2004 and 2005 the median income grew 1.1 percent. Even in the Northeast where wages are generally higher, the median income for a family of four was $50,992, according to the Census Bureau. To put it into more relative terms, Lloyd Blankfein could comfortably support 1,059 families of four, or 4,236 people, for a year with his bonus. The $16.5 billion Goldman Sachs investment pool could support 323,580 families, or 1.29 million people."

On the December 16 "Nightly News," NBC anchor John Seigenthaler noted: "Most US businesses—66 percent—give no bonuses at all. Those employees lucky enough to receive a cash gift will get an average of $837. Compare that to the bonuses Goldman Sachs gives out, a jackpot so big they could give every employee more than $600,000."

On the same program, correspondent Mike Taibbi, after interviewing a worker who was living "paycheck by paycheck just to pay for mortgages, gas, electric, everything," commented, "Working Americans now pay more of their pension and health care costs, and food, fuel and service costs have risen faster than most salaries. That means even those who do get small bonuses still struggle."

The handful of skeptics was more than drowned out by the sheer number of jubilant voices thick with greed and self-satisfaction. In the words of one Internet commentator, "Main Street should always be merry when Wall Street is doing well."

As for the idea that the bonuses will help "grow" the economy, an approving comment by Peter Cohan at *bloggingstocks.com* gives some indication of the productive uses to which the billions in bonus money are put to use. Cohan writes, "Here are some more specific examples of how those bonuses are being spent:

"A $50,000-plus ring will soon adorn a Wall Street wife's hand featuring two canary diamonds, yellow stones that are among the rarest available;

"A New York real estate magnate wants a charter for June or July off Italy's Amalfi Coast for as many as a dozen of his family and friends, at a cost of about $175,000 per week for the boat and crew;

"Marquis Jet Partners has sold more than 100 jet gift cards in the past month—at $185,000 a pop. One Wall Street executive bought six, one each for his wife and five kids. [Marquis sells 25-hour chunks of flying time on NetJets, the operator of private planes owned by Warren Buffett's Berkshire Hathaway.];

"A New York beauty salon gets three calls daily for makeovers, at $10,000 to $20,000 each;

"A Fifth Avenue plastic surgeon says he gets about 20 requests a year for plastic surgery or Botox anti-wrinkle treatments as gifts; and

"One woman specifically asked for a $20,000 face lift as a gift from her husband this year, instead of clothing or jewelry."