Wall Street awards itself billions in Christmas bonuses

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Wall Street is awarding itself tens of billions in bonuses this winter. The fantastic amounts of money being handed out to investment bankers, securities traders and the like is symptomatic of the vast social divide that blights every aspect of American life.

Investment bank Goldman Sachs is leading the pack. The firm reported an increase in quarterly earnings of 93 percent and will distribute some $16.5 billion in bonuses to dozens of its bankers and traders. The top "rainmakers," as they are called, will each take home as much as $20 to $25 million just in bonuses, "while traders who booked big profits will take home a chunk of those profits, up to $50 million apiece," according to a December 13 article in the *New York Times*. The report cited the comment of one New York-based investment firm, "Anyone at the bonus line at Goldman Sachs died and went to bonus heaven. It doesn't get any better than this."

Another piece on the December 3 financial page of the *Times* suggested that bonuses are "expected to be a cash pile of more than $100 billion across the Street this year." That estimate presumably includes companies of all sizes. Last year major investment banks and trading firms handed out $21.5 billion in year-end bonuses. Options Group, a New York executive search firm, predicted 2006 bonuses would rise 15 to 20 percent.

The staggering figure of $100 billion in total bonuses is more than twice the annual budget of the US Department of Housing and Urban Development and nearly twice the US Department of Education budget. Washington spends $20 billion annually on foreign aid to the *entire world*. The yearly budget of the City of New York, which employs 250,000 people, amounts to $50 billion.

The $16.5 billion in bonuses at Goldman Sachs *alone* is more than New York City pays to educate 1.1 million children in its schools, the largest local school budget in the US. Goldman Sachs is giving out more in year-end financial rewards than the federal government spends on the nation's largest low-income housing program, the Housing Choice Voucher Program ($15.9 billion), which covers some 2 million households.

Goldman Sachs' top employees are not alone. Investment bank Morgan Stanley awarded its chief executive, John Mack, $40 million in stock and options for 2006, according to a regulatory filing on December 14. When Mack rejoined Morgan Stanley in June 2005 (he was ousted as president of the bank in 2001), he received a new-hire award of 500,000 restricted stock units, valued at $26.2 million. In February 2006, Morgan Stanley announced that it had awarded Mack $13 million in cash, stock and other compensation for his first five months on the job. Aside from his salary, therefore, Mack has received compensation worth nearly $80 million in 18 months at Morgan Stanley.

Mack's $40 million bonus, however, is expected to be eclipsed by the amount eventually handed out to Goldman Sachs CEO Lloyd Blankfein. His 2006 bonus will probably top $50 million, according to analysts. Other executives in the $40-$50 million category include James Cayne of Bear Stearns, Stan O'Neal of Merrill Lynch and Richard Fuld of Lehman Brothers, notes the *Wall Street Journal*.

Much of the bonus money is paid out for those involved in massive mergers and acquisitions. The *New York Times* revealed what it termed the "dirty little secret" of corporate mergers: There is "a torrent of multibillion [dollar] takeovers and mergers at the end of every year" to influence bonuses "for all involved in the deal, especially the bankers." The newspaper added, "Corporate America's biggest cheerleaders and boosters need to get paid."

Bankers at Goldman Sachs and the other firms receive bonus money for a deal announced this year, and receive another reward when the deal closes next year. Even if the merger eventually fails to come about, the bankers keep their bonus money.

The nature of Goldman Sachs' activities underscores the parasitic character of modern-day American capitalism. According to the *Times*, the investment bank has "transformed its business to capitalize on sea changes in the capital markets, particularly new opportunities in far-flung markets and a shift from issuing and trading plain-vanilla stocks and bonds to building and trading complex derivative products."

Two episodes demonstrate how Goldman Sachs makes some of its billions. In the second quarter of 2006, it spent $2.6 billion for a 5 percent stake in the Industrial & Commercial Bank of China, the largest state-owned bank in that country. When the latter went public in October, Goldman Sachs reaped a windfall. For the fourth quarter, it made nearly $1 billion on the investment.

Goldman Sachs earned a further half a billion dollars on the sale of Accordia Golf, a portfolio of Japanese golf courses it began to acquire in 2001. This is a far cry from the manufacturing operations of a Henry Ford or an Andrew Carnegie.

Goldman Sachs is a particularly well-connected financial institution. The present US treasury secretary, Henry Paulson, is a former chairman and CEO. His three immediate predecessors were Jon Corzine, former US senator (and present governor of New

Jersey), Stephen Friedman, who became chairman of the National Economic Council (and later chairman of the President's Foreign Intelligence Advisory Board, in which capacity he still works) and Robert Rubin, who served as Treasury Secretary in the Clinton administration.

The billions in bonuses will have a material impact, in the first place, on New York City, further widening the social gap. Financial industry employees collect more than 50 percent of the wages paid in Manhattan, although their 280,000 jobs represent less than a sixth of the total (1.8 million), and that first figure itself is skewed, considering the relatively small percentage of employees at Wall Street firms who make fabulous amounts. Meanwhile, incomes for restaurant, hotel, retail and health care workers stagnate, in many cases at near-poverty levels.

Real estate brokers, luxury automobile and jewelry dealers salivated at news of the Wall Street bonuses. According to the *Times*, "There are few things that can gladden the hearts of New York real estate brokers as much as the thought of billions of dollars in bonuses paid on Wall Street, moving from hedge funds and buyout fees to brick and stone, or in some cases, glass and steel, as this uncertain year of wavering condominium and co-op price draws to a close."

The newspaper continued: "Not all buyers, of course, wait for bonus season. Among recent transactions was the $19 million sale of a co-op at 66 East 79th Street to J. Christopher Flowers, a former Goldman Sachs partner who formed his own investment fund, and who is listed by *Forbes* on its list of 400 richest Americans with a net worth of $1.2 billion. Then, Kenneth D. Brody, another former Goldman Sachs partner, who went on the head the United States Export-Import Bank during the Clinton administration, bought a fifth-floor apartment at 25 Sutton Place for $6.25 million."

The vast amount paid out for real estate in Manhattan and affluent corners of the other boroughs is helping drive up housing costs. For working New Yorkers, affordable rents are disappearing. And social conditions for millions in the city continue to deteriorate.

In 2004, in the "richest city in the world," an estimated 1.2 million people, including 400,000 children, lived in hunger or in households where having sufficient food was always in question.

In 2005, the top fifth of Manhattan's earners reported making $330,244--about 41 times more than the $8,019 reported by the bottom fifth. The Bronx remains the poorest urban county in the country; more than half of its households headed by a woman and including young children live below the poverty level.

As is the case with every other social phenomenon, there are two holiday seasons in the US, one for the wealthy elite and another for the overwhelming majority of the population. The gap is registered by every significant social barometer.

In late November, Tiffany & Co. reported a 23 percent jump in earnings on increased sale of $20,000 rings and necklaces. The luxury retailer hiked its profit forecast for the year as a result of the holiday demand.

The *Bloomberg* wire service noted, "The US luxury market has grown as the number of Americans with financial assets of at least $1 million increased 6.5 percent last year, according to the World Wealth Report published by Capgemini Group and Merrill Lynch & Co. Tiffany and other US luxury retailers are poised to have a strong holiday season, analysts said."

The *Chicago Tribune* commented, "So far, it's a tale of two Christmases for retailers. Those stores catering to luxury shoppers are faring better than discount stores." The International Council of Shopping Centers noted that sales at chain stores rose only 2.1 percent in November, reflecting, in particular, the poor showing of Wal-Mart, where millions of lower-income people shop, which experienced its worst performance in a decade.

A report from the Center on Budget and Policy Priorities points out that the disparities in consumer expenditure among households at different income levels were greater in 2005 than in any year on record. The top fifth of households made 39 percent of all consumer expenditures in 2005, the highest share on record. The bottom 20 percent of the population made only eight percent of the expenditures, tied with 2004 for the lowest share ever.

The media and political establishment attempt to ignore this vast social chasm—or treat it as something of a joke. At one point in American history, and not so terribly long ago, the Goldman Sachs bonuses would have caused a furor. The amounts handed out, while tens of millions lived in poverty, would have been called a national disgrace. Congressmen would have demanded public hearings. Now, there is a shrug of the shoulder in the media, or an amused reference, or hints of envy and jealousy. The politicians, many of them multi-millionaires like Corzine, prefer to say nothing.

If anything, the vast pay-outs are seen as a positive sign. As a *New York Times* reporter, speaking for many, asserted, "Investment banking earnings are often proxies for the health of the American and global economy."

On the contrary, the misappropriation of wealth to a handful of speculators and glorified bottom-feeders is a sign of a diseased social organism. The funneling of tens of billions into the hands of the elite, who will spend it on themselves, on their homes, yachts and private airplanes, means that useful and productive projects go by the wayside and grave social needs go unmet.

The Goldman Sachs figures made a few people in the media nervous. John Gibson, one of Fox News's right-wing anchormen, wrote, "Yes, I'm for capitalism, but please. You've got guys like [Democratic Party politician] John Edwards saying there's two Americas—the rich and the poor—playing the class game . . . My point is: Why do the fat cats have to work so hard at proving him right when by and large we know he's wrong?"

The *Washington Post* business page opined, "Still, news of Wall Street's Very, Very Good Year is likely to stir some resentment on Main Street—not because the economy is so bad as much as it is yet another reminder of the ever-widening gap between the super-rich and everyone else."