“This is America—we don’t disparage wealth”

Obama announces token executive pay limits

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"This is America. We don't disparage wealth. We don't begrudge anybody for achieving success." So said President Barack Obama at a White House press conference Wednesday, as he announced new measures that purport to limit executive pay.

The rules would apply to large financial institutions receiving "exceptional assistance" from the federal government, and would limit pay to $500,000, not counting stock options, which would be redeemable upon reimbursement of government loans.

The main purpose of the new rules is to provide political cover for a new phase in the ongoing bailout of Wall Street. In his press conference, Obama himself indicated this, linking the pay rules to a new, and vastly larger, bailout for the financial industry than the $700 billion TARP (Troubled Asset Relief Program).

"Next week, Secretary Geithner will release a new strategy to get credit moving again—a strategy that will reflect the lessons of past mistakes while laying a foundation for the future," Obama said, later adding that "[f]or top executives to award themselves these kinds of compensation packages in the midst of this economic crisis is not only bad taste—it's bad strategy."

Revelations last week that Wall Street paid its executives $18 billion in bonuses for 2008—even after their ruined firms took hundreds of billions in federal handouts—have provoked widespread outrage. The growing public anger toward the financiers complicates Obama's efforts to prepare a new bailout for the industry, which in spite of all efforts continues its meltdown.

"What gets people upset—and rightfully so—are executives being rewarded for failure," Obama said. "Especially when those rewards are subsidized by US taxpayers."

Treasury Secretary Geithner, who also spoke at the press conference, warned, "There is a deep sense across the country that those who were not responsible for this crisis are bearing a greater burden than those who were."

The measures on executive pay aim to divert this anger. At the same time they will do little or nothing to reduce executive pay.

According to the Treasury Department plan, the new guidelines would "distinguish between banks participating in any new generally available capital access program and banks needing ‘exceptional assistance.'" The restrictions would not apply to the firms that have already accepted an estimated $250 billion disbursed from the government through the Capital Purchases Program, by far the largest component of TARP. These firms are subject only to "proposed guidance" on executive pay from the Treasury.

It is conceivable that the new bailout that Geithner will propose next week—whose cost estimates range between $1 trillion and $4 trillion—will fall under the rubric of a "generally available capital access program." If so, executive pay rules pertaining to "exceptional assistance" would not apply, and the institutions would be able to waive the $500,000 limit with public disclosure and a "non-binding" shareholder vote.

Moreover, even the size of the so-called pay “limit”—$500,000—is startling. That a salary of a half million dollars—more than 10 times the median annual pay of an American worker—could be presented as punitive action testifies to the avarice of the ruling elite.

But in fact the rules allow executives to make far more. The Treasury Department guidelines include an exception that permits executives to be paid in stock options beyond the $500,000 limit, so long as they keep the stock until their firms have paid the government back for loans taken.

Once again, the full significance of this stricture will become clear only when Geithner presents the details of the new bailout. If, as is widely anticipated, the plan will feature the creation of a "bad bank" where financial institutions could sell their toxic assets at an inflated price, it would have the immediate effect of rapidly increasing the banks' stock prices—and with them the pay packages of the CEOs.

As Max Holmes, a finance professor at New York University and chief investment officer of an asset management firm, told the *New York Times*, "[T]he stock

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prices of the good banks are likely to soar, as they will be the four best capitalized and cleanest banks in the world."

Additionally, Obama and Geithner declared there would be new restrictions on "golden parachute" severance pay packages for executives, and new rules pertaining to corporate jets, office remodeling and corporate parties and vacations. These largely symbolic measures are plainly aimed to mollify public anger.

Notwithstanding the toothless character of the proposed limits, Wall Street has raised a hue and cry about the intervention of the government into the prerogative of "private enterprise." The financial elite are ready to take trillions from the government, but they bray against even the symbolic appearance of public jurisdiction over their empires.

"Free market" advocates argue that such limits will hinder the major banks' ability to attract the best talent to management. David Kotok, the chief investment officer of Cumberland told *Reuters* that while the limit is "pure political grandstanding," to the extent it "has bite it will be counterproductive" as "skilled and bright senior managers make choices."

Jon Ogg, an editor for the financial website *24/7 Wall Street*, complained that "Jamie Dimon [CEO of JPMorgan Chase] was forced to take TARP monies. Should he be forced to work for $500,000.00 for the rest of his days? We think not." Douglas McIntyre, also an editor for *24/7*, warned "Wall Street may keep most of its bankers if they face pay cuts, but it is the top five or 10 percent who make these companies really profitable, and they will soon be on their way to greener pastures if this measure is enacted."

Doubtless many ordinary employees of the financial firms facing collapse would be relieved if this sort of "talent" were in shorter supply. Far from attracting the "best and the brightest" the vast sums of executive compensation acted as a magnet for those driven by the most short-term considerations, i.e., driving up share values and pocketing millions, if not billions, for themselves. In so doing they drove their companies into bankruptcy and precipitated the greatest economic crisis since the Great Depression.

It has also been argued that limits to executive pay may delay the economic recovery, as executives refuse to enter their institutions into any government bailout that would restrict their remuneration. While most ordinary people would reply with a hearty "good riddance," such warnings from the ruling elite have clearly conditioned the White House response to the issue of executive compensation.

This cowering before the financial elite is what imparts to Obama's efforts such a two-faced and pathetic character. Even while Obama aims to sooth public anger over executive pay, he goes to far greater lengths to reassure the financial elite. "It's not a government takeover," Obama pledged to CNN on Tuesday. The Treasury guidelines, meanwhile, specifically acknowledge "the need for financial institutions to...attract the talent pool that will maximize the chances of financial recovery and taxpayers being paid back on their investments."

Even after having received a mandate in the election, with both houses of Congress controlled by Democrats, and under conditions of enormous public anger toward Wall Street, Obama is incapable of launching even the most timid reform. Nothing could more clearly demonstrate the dictatorship that the financial aristocracy exercises over the American state.

Obama is, moreover, a favored political representative of the financial elite, having garnered more Wall Street campaign donations during the election than either of his chief rivals, Democrat Hillary Clinton and Republican John McCain. Like Tom Daschle, the recently-withdrawn nominee for Secretary of Health and Human Services who made millions as an attorney at a lobbying firm after his senate career ended, Obama can look forward to a lucrative new profession in the corporate world after his term in office expires—so long as he remains on good terms with his paymasters.

There is no way of addressing the economic crisis without an assault on the social, economic, and political position of the financial aristocracy. The Socialist Equality Party calls for the criminal investigation of the executives and top stockholders that have plundered the economy—and their own firms—while enriching themselves. Their personal fortunes, which amount to trillions of dollars, must be appropriated and used to meet pressing social needs. Most fundamentally, the major financial institutions must be placed under the democratic control of the working class as the linchpin for a new, socialist economy.

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