

# Obama maneuvers to protect Wall Street bonuses

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21 March 2009

Following the passage Thursday of a bill by the House of Representatives that would tax some bonuses at a handful of companies that have received government bailout money, the Obama administration is seeking to discourage passage of a similar bill by the Senate, even as Obama feigns indignation over \$165 million in bonuses awarded by the bailed-out insurance giant American International Group (AIG).

Obama is attempting to navigate between placating public anger over AIG and similar outrages by Wall Street firms that have received hundreds of billions of dollars in taxpayer funds and satisfying the demands of the financial elite, which will brook no government interference in its drive for self-enrichment.

Responding to an outpouring of public anger over the revelation that AIG, the recipient of \$173 billion in government loans and cash, last week granted large bonuses, some in the millions of dollars, to executives and traders in its financial products division, the House voted 328 to 93 to impose a 90 percent surtax on bonuses given to employees with a family income of \$250,000. The bill covers only firms that have received \$5 billion or more in government handouts under the \$700 billion Troubled Asset Relief Program (TARP) and other financial rescue programs.

The financial products division was the unit of the insurance company that sold trillions of dollars worth of credit default swaps to banks, hedge funds and other financial companies to insure their investments in collateralized debt obligations and other exotic financial instruments backed by subprime mortgages. It played a major role in erecting the financial house of cards that has come crashing down, effectively bankrupting AIG and much of the US and international financial system and plunging the world economy into the deepest recession since the 1930s.

All but six House Democrats voted for the bill and nearly half of House Republicans joined in support, defying House Minority Leader John Boehner, who opposed the measure. The bill is retroactive, covering all bonuses at affected companies granted after January 1, 2009. It thus includes the AIG bonuses that have become a focal point for public anger over the entire government bailout of Wall Street.

The House bill, in fact, covers only 13 of the more than 500 companies that have received some \$250 billion in cash infusions from the US Treasury. In addition to AIG, the list includes Citigroup, JPMorgan Chase, Wells Fargo, Bank of America, Goldman Sachs, Morgan Stanley, PNC Financial Services Group,

US Bancorp, General Motors, General Motors Acceptance Corporation and the mortgage finance giants Fannie Mae and Freddie Mac.

The Senate version, which could be voted on as early as next week, covers a wider range of firms—those receiving \$100 million or more in government cash. It would impose a 70 percent surtax on most bonuses at these companies, half to be paid by the individual recipients and half by the firms.

The aim of the House and Senate measures, far from fundamentally reforming the financial system or requisitioning the vast fortunes of Wall Street speculators, is to mitigate public anger in order to pave the way for passage of a new round of bank bailouts being prepared by the Obama administration. This was signaled by Democratic Congressman Artur Davis of Alabama, who said, "We're eroding confidence in the way taxpayer dollars are managed and spent. And the cost of that? It's going to make it harder than ever for us to do the things that must be done to get this economy going moving forward."

Similarly, in the Senate, Democrat Max Baucus, the chairman of the Senate Finance Committee, indicated at a hearing Wednesday that the bill he coauthored was aimed at pressuring AIG to voluntarily revoke the bonuses. He told the CEO of AIG, "We're going to introduce the bill. I think it's sufficient leverage to get these paid back."

As the *Wall Street Journal* reported Friday, "Still, the feeling at one major bank Thursday was that the legislation would get significantly watered down, making it applicable only to AIG, or, perhaps, firms that have received more government assistance than just the initial handouts made under the TARP program..."

Nevertheless, the measures have ignited a storm of indignant protest from Wall Street and threats to refuse to participate in government financial rescue programs. Amid charges of "McCarthyism" and denunciations of the proposals as "vengeance," leading banking figures are threatening, in effect, to allow the financial system to collapse rather than accept even the most modest limits on executive pay.

Already, more than 200 banks have withdrawn their applications to receive government cash in order to avoid government limits on executive pay and restrictions on their financial operations.

The vast fortunes piled up by Wall Street executives have played a major role in the destabilization of the US and world economy. Over the past three decades, trillions have been drained from society's resources and the wealth created by the working class to

sustain the lavish lifestyles of the modern robber barons. Just last year, as they were recording record losses, Wall Street firms paid more than \$18.4 billion in bonuses in New York City.

The *Washington Post* summed up the attitude of the financial elite to the House bill in its lead editorial Friday, headlined "Washington Gone Wild." The newspaper wrote, "Yesterday, the House had the feel of a mob scene..." It went on to warn that "The effective confiscation of legally earned and contractually promised payments may well be unconstitutional..."

Needless to say, the leading newspaper of the nation's capital has expressed no similar qualms about government diktats requiring the ripping up of union contracts at auto companies and the slashing of workers' wages and benefits.

The editorial echoed the assertions of bankers that such limits on corporate compensation would "drive away the best talent" at AIG and other firms. Precisely the nature of the "talent" of executives who masterminded the collapse of the company and much of the financial system, the newspaper did not explain.

It then got to its central point: "The Obama administration reportedly intends in the next week or two to announce the details of a 'private-public partnership' to buy troubled assets from ailing banks. The participation of private hedge funds, investment banks and other firms will be key to the plan's success..."

This refers to the administration's plan to entice speculators into buying bad loans from the banks by using taxpayer money to give them low-cost loans and guarantee the vast bulk of any potential losses. This is a scheme to guarantee returns of 20 percent or more to big investment firms and provide a new source of fees and profits to the banks, while offloading the banks' worthless assets onto the public.

Following the House vote, Obama issued a statement designed to appeal to popular anger while making no commitment to support the measure. He said the vote "rightly reflects the outrage that so many feel over the lavish bonuses that AIG provided its employees at the expense of the taxpayers who have kept this failed company afloat." He continued, "I look forward to receiving a final product that will serve as a strong signal to the executives who run these firms that such compensation will not be tolerated."

Appearing that evening on the "Tonight Show with Jay Leno," Obama responded to a question from the comedian on the House bill by further distancing himself from it. "I understand Congress' frustrations," he said. "They're responding to, I think, everybody's anger. But I think the best way to handle this is to make sure that you close the door before the horse gets out of the barn."

This statement sums up the hypocrisy of the administration as well as Congress. Obama, both before and after assuming office, intervened to prevent the door from being closed to AIG and other financial firms—including Merrill Lynch, Fannie Mae and Freddie Mac—that used taxpayer money to award lavish bonuses.

During the presidential campaign, candidate Obama joined with the Bush administration in opposing any serious executive pay restrictions in the original TARP bailout legislation. As president elect, he lobbied to block attempts to attach meaningful compensation limits in the congressional authorization for the second \$350 billion installment of TARP funds. And his administration intervened in the final stages of congressional

action on his economic stimulus bill to sanction bonuses at AIG and other firms receiving government cash by exempting bonuses agreed to before the February 11 enactment of the stimulus legislation from limits on executive compensation.

Subsequently in the Leno interview, Obama responded to a question as to whether some people should go to jail for the economic debacle by offering a virtual blanket amnesty to Wall Street. "Most of what got us into trouble was perfectly legal," he said. He sought to discredit public anger as "finger-pointing," declaring that he was seeking to "break a pattern in Washington where everybody's always looking for someone to blame."

The real attitude of the Obama administration was spelled out by the *Wall Street Journal*, which reported Friday that "privately, there's concern within the Obama administration that the angry political atmosphere now surrounding the federal bailout program will scare away private participants the government needs to help bolster the financial system."

The newspaper added that administration officials "are looking for ways to blunt the bill's impact if it becomes law..."

On the same day that Obama vouched for the lawfulness of the American financial aristocracy, the House Ways and Means Committee's oversight subcommittee revealed that thirteen of the largest recipients of government bailout funds failed to pay more than \$220 million in federal taxes, including two firms—which the committee refused to name—that owe \$113 million and \$102 million.



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