Britain: Ex-boss of failed RBS bank awarded £25 million pension

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As the state of Britain's major financial institutions becomes daily more precarious, the row over the pension awarded the former head of the Royal Bank of Scotland Group (RBS), Sir Fred Goodwin, has become ever more charged.

Goodwin has been granted a pension pot estimated at £25 million. He also received a £1.2 million pay-off last year. At the time this was agreed in October 2008, the Labour government had bought a 60 percent stake in RBS to save it from bankruptcy.

RBS posted the largest losses in British corporate history when the company announced that it had lost £24.1 billion in 2008. The bank has had billions of pounds in taxpayers' money pumped into it, either to buy-up largely worthless RBS stock or to guarantee its "toxic assets".

The UK government now owns 70 percent of RBS, though the bank continues to operate as a private company. In the largest bail-out to date, the government has agreed to inject a further £13 billion into RBS, on top of the £20 billion already given, and to make a further £6 billion available. It now transpires that at least some of this sum will be going to pay the generous pension of Goodwin, chief executive officer (CEO) of the bank from 2001 until it sank. Aged just 50, Goodwin's pension has already kicked in, providing him with £697,000 per year for life.

The deal was struck during negotiations over Sir Fred's forced retirement, which was politically necessary given the scale of the losses at RBS paid for by the government. Since it was revealed last month, the Labour government has sought to distance itself from the decision over the package. Prime Minister Gordon Brown called on Goodwin to voluntarily relinquish part of his pension, which the bank chief refused. Deputy Labour leader Harriet Harman has suggested that it could be subject to legal challenge.

Appearing before the parliamentary Treasury Select Committee on Monday, John Kingman, head of the UK Financial Investments (UKFI) set up by the government to oversee the bailed-out banks, described Goodwin's pay-out as "extraordinary". UKFI was exploring legal avenues to redress the situation, he said, suggesting that the RBS board were not fully aware of other alternatives when they granted Goodwin his pension last year.

UK Treasury Minister Lord Paul Myners, who has responsibility for regulating the financial sector, has claimed he had no knowledge of the negotiations over Goodwin's retirement. Even if this claim were true, it would express an enormous degree of official indifference to the looting of social wealth by the CEO of a failed bank that was majority owned by the state.

Opposition and Labour MPs, including former deputy prime minister John Prescott, have attacked Goodwin as "arrogant" and "shameless" for accepting the pension bonanza. Lord Myners recently attacked top bankers for being "grossly over-rewarded" and having "no sense of society". (Myners himself was a director of NatWest Bank and Chairman of Marks & Spencer before being ennobled and made Financial Services Secretary last year.)

But Goodwin's avarice is not an aberration that would have come as a surprise to Prescott, Myners *et al*. Rather, Goodwin, who was reputed to be close to Prime Minister Gordon Brown and was knighted in 2004 for "services to banking", is just one manifestation of a culture of personal enrichment at the direct expense of society that has metastasised under successive Labour and Tory governments.

Lord Peter Mandelson, one of the architects of New Labour and current business secretary in Gordon Brown's government, made clear his party's attitude to the remuneration packages of Sir Fred and his ilk long ago when he famously said, "We [Labour] are intensely relaxed about people getting filthy rich".

That the government should now claim to be shocked at the pension package Goodwin was able to negotiate under the noses of the Treasury beggars belief. Since coming to power in 1997, Labour has overseen deregulation in the financial sector, the privatisation of public services and a low-tax regime that has seen Britain become what one financial observer called the world's first "onshore tax haven".

Questioned last week by the select committee, Lord Turner, head of the Financial Services Authority, said that both Labour and the Tories had supported and pressured for "light touch" regulation. The "political philosophy" shaping financial regulation was one where "all the pressure on the FSA was not to say ‘are you looking more closely at these business models?' but to say ‘Why are you being so heavy and intrusive? Can't you make your regulation a bit more light touch?'"

Had the FSA questioned the banks lending, politicians "on both sides of the house" would have reacted by accusing the body of "holding back the extension of credit, that we were preventing the democratisation of home ownership... I suspect we would have been pushed back politically if we had [done that]".

Goodwin's biography is representative of many leading figures in major banks today. He has no formal qualifications or technical training in banking, but instead entered the sector on the basis of having a proven track record in ruthless profiteering. Starting work as a chartered accountant, in his early career Goodwin worked as a management consultant for Touche Ross, overseeing the break-up of such major manufacturing concerns in the 1980s as the Rosyth shipyard in Scotland and Short Brothers aerospace company in Northern Ireland, resulting in thousands of redundancies.

Goodwin's first serious involvement in the world of banking came when he headed Touche Ross's liquidation team working on the collapsed Bank of Credit and Commerce International (BCCI) in 1991. He then worked with the National Australia Bank, which was moving into the retail banking sector in Britain, having bought the Clydesdale Bank and the Yorkshire Bank. By 1996 he was appointed head of National Australia Bank's operations in the UK, joining the Royal Bank of Scotland as deputy CEO two years later.

At RBS, Goodwin, together with then chairman Sir George Mathewson, pursued an aggressive expansion policy that saw the bank move from being a relatively small regional operation to the largest bank in the world in terms of assets in the space of a few years. In 2000 RBS took over NatWest, a bank three times the size of the Edinburgh-based firm. Promoted to CEO in 2001, Goodwin oversaw the expansion of RBS into Ireland, China and the United States, where it bought Citizens Financial and Charter One Financial groups. RBS also became heavily involved in the insurance sector.

During this time Goodwin became known in the City of London as "Fred the Shred" for his adeptness at ruthlessly slashing costs largely at the expense of bank workers' jobs.

In 2007 RBS carried out its most ambitious expansion, taking over Dutch banking giant ABN-Amro. Accusations at the time of the buy-up suggested that RBS had conspired with hedge fund Tosca, which Sir George Mathewson was by then in charge of, to pressure ABN-Amro shareholders to break-up the bank in order to maximise returns. RBS was then to buy the Dutch bank's concerns in North America.

By October 2007, just as the global financial meltdown emerged with the sub-prime mortgage crisis in America and the collapse of British bank Northern Rock, RBS completed the take-over of part of ABN-Amro for almost $100 billion.

From its height in 2007—RBS's assets were valued at $1.9 trillion, and it was the fifth largest global bank by market capitalisation—the bank went into a rapid decline. The liquidity crisis of 2008 exposed the fragility of RBS's rapid expansion. The bank issued two share options and tried to sell its insurance businesses in a desperate attempt to shore-up mounting losses.

During his tenure at RBS Goodwin regularly received annual salary and bonus packages of nearly £2 million, plus millions of pounds more in shares. On average, RBS staff received around one-eightieth of this remuneration; thousands of workers at the bank currently face redundancy.

Goodwin, in other words, is exactly the social type that Labour and the Tories were courting and promoting over the last three decades as part of their promulgation of the wonders of the "free market".

Both parties are now willing to make criticisms of this or that aspect of the "free market", but only so as to defend its fundamentals. Labour's John McFall, chairman of the select committee, ruled out any changes in law to prevent further situations like those of Goodwin's pension arising again. "Parliament doesn't have any role in taking people's pensions back—final," he said.

Government can hand out billions in public funds, forcing working people to carry the can for the profligacy of a super-wealthy layer without any public discussion, let alone a democratic mandate. But nobody is to be held to account or penalised in any form for the economic and social disaster caused by the financial and political policies of the last decades.