Wall Street pay back to pre-crash levels

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The *New York Times* reported Sunday that compensation at six of the largest US banks is on track to return to the record levels that preceded last year's financial crash.

The article, based on an analysis of first quarter financial reports, reveals that Goldman Sachs, Morgan Stanley, Citigroup, JPMorgan Chase, JPMorgan Investment Bank and Bank of America set aside in total more than $36 billion in the first three months of 2009 to pay their employees.

"If that pace continues all year," the *Times* writes, "the money set aside for compensation suggests that workers at many banks will see their pay—much of it in bonuses—recover from the lows of last year." The vast bulk of these payouts will go to the highest-paid traders and executives.

All of these banks have received billions of dollars in cash infusions under the Troubled Asset Relief Program (TARP) that was passed by Congress last October and continued under the Obama administration. In addition, they have received trillions of dollars in low-cost government loans, guarantees on their bond issuances as well as their "toxic" home loans and other bad debts, and further subsidies paid for either directly or indirectly by taxpayers.

The *Times* notes that Goldman Sachs set aside the biggest compensation windfall, $4.7 billion for the quarter. "If that level continues," the newspaper writes, "it would add up to average pay of $569,220 per worker—almost as much as they paid in 2007, a record year."

JPMorgan Chase's investment unit is on track to award its employees an average of $509,524 over the year, more than $150,000 higher than in 2006.

The banks justify these huge amounts on the grounds that they reported substantial profits for the first quarter of this year. These profits were largely the result of the taxpayer subsidies granted by the government combined with deceptive accounting gimmicks. The banks are, moreover, concealing the bulk of the bad debts they continue to hold, estimated by economists at more than $2 trillion, refusing to sell them at market prices or write them down. They are confident, with good reason, that the government will eventually take them off their hands at vastly inflated prices.

One of the six banks, Morgan Stanley, reported a first quarter loss of $578 million, but still set aside $2.08 billion for compensation, an amount equal to 68 percent of its revenue.

Since the Obama administration refuses to place any requirements on how the banks spend their bailout money, or even report how it is being used, the bankers are free to do what they wish with their government handouts. Recent reports have made clear that they are not using it to increase lending to other businesses or consumers—the ostensible purpose of the bailout—but rather are hoarding the funds to shore up their balance sheets and award themselves millions in pay and bonuses. Meanwhile, they have begun to ramp up home foreclosures and sharply increase interest and fees on credit cards.

Obama has consistently opposed any meaningful limits on compensation at financial firms receiving bailout funds. During the 2007 election campaign he joined with Bush in pushing for congressional passage of the $700 billion TARP bill, echoing the Republican administration's arguments against serious pay limits. As president elect, he focused his attention on lobbying Congress for passage of the second $350 billion installment of TARP funds, again opposing the introduction of limits on executive compensation.

When public anger erupted in January over reports that Wall Street bankers had awarded themselves more than $18 billion in year-end bonuses, Obama feigned outrage. But the following month, when a provision was inserted by Congress into his $787 billion stimulus

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package retroactively limiting some executive bonuses at 13 firms receiving TARP funds to one-third of total compensation, his top economic advisers pledged to find ways for the banks to evade the restrictions.

In March, when the issue of executive bonuses erupted again in connection with $165 million in bonuses awarded by the bailed out insurance giant American International Group (AIG), Obama worked to scuttle congressional bills that would have imposed surtaxes on such awards. It later emerged that the Obama administration had intervened in the final drafting of the stimulus bill to have a provision inserted protecting bonuses at firms such as AIG that had signed bonus agreements prior to the passage of the stimulus package.

The lead in inserting this provision was taken by Obama's treasury secretary, Timothy Geithner. On Monday, the *New York Times* carried a lengthy profile of Geithner documenting in detail his close ties to Wall Street's top bankers and financiers.

The article notes that during his five-year tenure as president of the Federal Reserve Bank of New York, Geithner established his credentials as personal associate and regulatory protector of Wall Street interests. He opposed any restrictions on the reckless but highly profitable speculative policies that prevailed during the financial boom, including a vast expansion of unregulated derivative markets and subprime lending.

The *Times* suggests that even among such Wall Street boosters as Bush's treasury secretary, Henry Paulson, and Federal Reserve Chairman Ben Bernanke, Geithner stood out. It recounts a meeting held last June at which Geithner proposed that Congress be asked to give the president the power to guarantee all of the debt in the banking system. This was considered at the time too brazen a windfall for the banks to pass political muster.

But, as the article points out, this is essentially what has transpired in the intervening ten months.

The article underscores the significance of Obama's decision to appoint Geithner to head the Treasury Department and oversee the ongoing bailout of the banks. It was a signal to the financial aristocracy that the new administration would concentrate its efforts on protecting the interests of Wall Street.

As treasury secretary, Geithner has repeatedly avowed the administration's opposition to any meaningful restrictions on the banks and insisted that the financial industry remain in private hands. Just last week, testifying before the congressional oversight committee on TARP, Geithner said he was concerned at the "potential damage you do to franchise value and expectations across the financial system if you have this expectation of creeping long-term government involvement, government ownership."

As the resurgence of bankers' pay makes clear, this is a formula for using public funds to create conditions for the banks to make more money than ever and resume the semi-criminal policies that precipitated the deepest economic crisis since the Great Depression.

The resources of the country have been placed at the disposal of a miniscule section of the population, with no strings attached, while next to nothing is done to protect tens of millions of workers who are being driven into unemployment, poverty and homelessness. The multi-millionaires on Wall Street have been given a blank check to recoup their losses even as the Obama administration imposes mass layoffs and poverty wages on auto workers and demands that the American people accept a permanent reduction in their living standards.

The bankers act with impunity in the face of public anger over their avarice and the looting of the public treasury on their behalf, secure in the knowledge that they have, in the Obama administration, a pliant tool of their interests.

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