Record bonuses at bailed-out US banks

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Executives at Goldman Sachs were told last week that they could expect to receive their highest ever bonuses this year, according to an article published Sunday in London's *Observer* newspaper. The first half of this year has seen a spectacular rebound for Goldman, and the company's London staff were told they would receive corresponding end-of-year bonuses if, as expected, the bank sets a new profit record.

These bonuses will be paid for by the American people. Besides receiving over $10 billion in cash from the US government last year, Goldman Sachs was the largest beneficiary of the government bailout of American International Group (AIG), receiving $12.9 billion to cover funds owed to it by the failed insurance giant.

Goldman Sachs is by no means alone. The *Financial Times* reported Monday that other banks, including Merrill Lynch, UBS and Citigroup, have sharply increased compensation for top traders. The article noted that the typical salary for managing directors has jumped from $250,000 to $400,000 in just the past few months. This does not count bonuses.

The *New York Times* reported Wednesday that Citigroup, which has received $45 billion in government cash and guarantees on over $300 billion of its assets, is increasing base salaries by up to 50 percent and plans to award millions of new stock options. The *Times* said that Bank of America, another beneficiary of multiple taxpayer handouts, and Morgan Stanley were also raising salaries.

There is an element of provocation in the brazen manner in which the Wall Street elite, whose manic pursuit of personal wealth played a major role in precipitating the deepest economic crisis since the Great Depression, uses taxpayer subsidies to further enrich itself. Like the aristocracies of old, the American financial oligarchy insists on flaunting its power and prerogatives. Mere mortals must “tighten their belts” and accept layoffs and wage cuts, but the “free market” entitles the bankers to use the crisis to make themselves richer than ever.

Nothing could more clearly expose the reality of class relations in America, as well as the role of the Obama administration. Obama has systematically worked to defend the wealth of the financial aristocracy. He has opened up the Treasury to pay off the gambling debts of Wall Street, dollar for dollar.

Last month, Goldman announced that it will pay half of its $1.2 billion first-quarter profit to its staff, mostly in the form of bonuses. In 2008, amid the economic meltdown, the firm paid nearly a thousand top bankers over $1 million each in compensation. Stockholders have also done very well. Warren Buffet, who invested $5 billion in Goldman Sachs six months ago, has already reaped $1 billion in profits.

Goldman repaid its $10 billion TARP (Troubled Asset Relief Program) cash to the US government last week, along with several other large banks. All of the banks, however, continue to benefit from trillions of dollars in government aid in one form or another. Having paid back the TARP loans, the banks are now exempt from the token restrictions on compensation and speculative practices that came with the government handouts.

Goldman and other mega-banks are getting a further boost from the government’s policy of encouraging a further consolidation of the banking industry. The disappearance of independent firms such as Bear Stearns, Merrill Lynch, Lehman Brothers, Washington Mutual and other banks has given Goldman, JPMorgan Chase, Morgan Stanley, Bank of America and Citigroup a bigger share of the market than ever.

The strongest of these, such as Goldman and JPMorgan, are making a fortune in the bond markets from the massive increase in government borrowing, most of which is due to the government rescue of Wall Street. The banks are charging lucrative fees on government handouts to themselves.

David Williams, an investment banking analyst at Fox Pitt Kelton, told the *Observer,* "This year is shaping up to be the best year ever for investment banks, or at least those that have emerged relatively unscathed from the credit crisis.... These banks are intermediaries in the bond markets where governments and companies are raising billions of pounds of new money. There is also a lack of competition that means they can charge huge sums for doing business."

Record bank bonuses are the inevitable and desired outcome of Obama's policy. The administration has repeatedly rejected caps on executive pay and has done everything in its power to ensure that the major banks are made “whole.” Coming one week after Obama unveiled his new bank regulation plan, the promise of bigger-than-ever bonuses reveals the reality behind the administration’s rhetoric: nothing will be done to rein in the financial elite.

Of all the banking giants, Goldman Sachs is perhaps the most closely tied to the White House and federal regulators. The list of former Goldman Sachs employees holding top positions in the Obama administration includes:

• Mark Patterson, a former Goldman Sachs lobbyist, who is the chief of staff to Treasury Secretary Timothy Geithner (himself the former president of the Federal Reserve Bank of New York).

• Reuben Jeffery III, former managing partner at Goldman Sachs, who holds the post of undersecretary of state for economic, business, and agricultural affairs.

• Neel Kashkari, former Goldman Sachs vice president, who is the assistant secretary of the treasury for financial stability, responsible for administering the TARP funds.

• Dianna Farrell, former financial analyst at Goldman Sachs, who serves as deputy director of the National Economic Council.

Henry Paulson, the Bush administration’s treasury secretary, who authored the TARP program and oversaw the AIG bailout, was the CEO of Goldman before taking the Treasury post. Between Paulson and Robert Rubin, who served under Clinton, the office of treasury secretary has been occupied by a former Goldman Sachs executive more than half the time since 1995.

The record bonuses come at a time when conditions of life for ordinary people are worse than at any time since the Great Depression. The official unemployment rate hit 9.4 percent last month, and the real unemployment rate—including those involuntarily working part-time and those who have given up looking for a job—is 16.4 percent. The number of mass layoffs in May was the highest on record.

Those who remain employed have seen their wages fall precipitously. One survey of company executives found that half planned to cut or freeze workers’ pay. *USA Today* reported June 12 that pay cuts, reduced hours, furloughs and involuntary part-time work have driven the working class back to conditions not seen since the 1930s.

These two policies are linked: The money gained by impoverishing the working class helps swell the fortunes of the Wall Street bankers.

There can be no solution to the social crisis confronting millions of people in the US and internationally that does not begin with the transformation of the banking giants into democratically-controlled public utilities. The massive resources controlled by the financial oligarchy for individual gain must be recovered and directed toward the satisfaction of social needs.

This program can be carried out only through a complete political break with the Democratic and Republican parties and the development of an independent, socialist movement of the working class.