US, Europe reject bank pay limits ahead of G20 meeting

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In the run-up to the September 24-25 G20 summit in Pittsburgh, the Obama administration and the major European governments have fashioned a compromise to block any effective limits on the pay of leading international bankers, which is once again assuming astronomical proportions one year after the collapse of Lehman Brothers.

Last Wednesday, President Barack Obama's deputy national security advisor for international economic affairs, Michael Froman, told journalists in Washington that the US president was opposed to any upper limits for bankers' pay. Froman said that while the president had been critical of some forms of remuneration for financiers, he was "reluctant to sort of set individual compensation levels."

Obama himself reiterated his opposition to limits on bankers' pay in an interview last week with *Bloomberg News*, in which he asked, "Why is it that we're going to cap executive compensation for Wall Street bankers but not Silicon Valley entrepreneurs or NFL football players?"

On Thursday, European leaders met in Brussels to agree a coordinated European position in advance of the Pittsburgh summit. At the top of the European Union agenda was the formulation of a joint position on remuneration for bankers. The aim of the EU leaders was to make a token gesture to stave off growing social opposition to their favoured treatment of the banks.

According to Swedish Prime Minister and current European Union President Fredrik Reinfeld, a failure to rein in bonuses would be "a provocation in Europe—especially when set against a steep rise in unemployment."

European Commission President Jose Manuel Barroso declared, "We must show zero tolerance for any return to the bad old ways. Our citizens are understandably horrified at reports of banks receiving public money paying exorbitant bonuses."

Even British Prime Minister Gordon Brown admitted that the issue of bankers' bonuses had "angered the populations of almost every country."

Acknowledging that there were differences between Europe and America on this issue, the senior European finance minister and Luxembourg premier, Jean-Claude Juncker, declared that Europe should act on bonuses "whether the Americans are with us or not."

In the event, the formulation agreed in Brussels failed to set any concrete limits on bankers' pay or bonuses. Instead, the resolution vaguely called upon governments to "explore ways to limit total variable remuneration" and suggested conditionally that bankers' bonuses "could be cancelled in case of a negative development in the bank's performance."

Prior to the EU meeting, the British chancellor of the exchequer, Alistair Darling, had already made clear that—irrespective the blustering of the British prime minister—his government was not serious about proposals to cap bankers' pay. A "global pay policy," he told the *Independent*, would not be feasible.

Following the EU meeting, the US Federal Reserve on Friday leaked details of its own proposals concerning bankers' remuneration to the press.

An article in last Saturday's *New York Times* makes clear that the Fed's proposals—worked out in consultation with Obama's treasury secretary, Timothy Geithner—are toothless. In common with the EU resolution, the Federal Reserve proposes no concrete limits on pay, nor will the Fed have the power to overturn the pay package of any individual. The issue of bankers' remuneration is to be handled within the framework of the Fed's normal supervision of the banks, i.e., confidentially. The public is to be kept in the dark.

The *Times* article indicates that the release of the Fed's proposals was timed to forestall more stringent proposals either from Europe or from the US Congress. The newspaper notes: "While the (Fed's proposed) rules depart from the hands-off approach that dominated bank regulation for the last three decades, they could head off even stricter limits on financial industry bonuses."

The article suggests that the Fed proposals are aimed at countering criticism from the EU while doing little to interfere with the exorbitant remuneration practices that predominated before the financial crisis. It states: "Fed officials would give banks wide leeway in how they structure their rewards. They would not prohibit million-dollar pay packages or address issues of fairness."

The article notes the general approval of top bankers, stating, "Bank executives said they welcomed the Fed's efforts…"

In a speech on Friday, Obama's chief financial adviser, Lawrence Summers, indicated that the administration supported the Fed's approach, while Treasury Secretary Geithner signalled his support over the weekend.

This is consistent with the opposition of Obama, Summers and Geithner to any real restrictions on bankers' pay. Last March, they intervened to scuttle a bill passed by the House of Representatives that would have limited bank pay. The bill was passed by a wide margin following a public furore over massive bonuses paid out by American International Group (AIG), the insurance giant that has received a total of $183 billion in cash and loans from the US government.

The EU and US authorities are moving to draw up a resolution for the G20 summit that will express mild criticism of the banks, while effectively declaring an amnesty for bankers and financiers who plunged the world into the most serious recession since the 1930s and giving them free rein to continue their speculative practices.

Since the collapse of Lehman Brothers, the world has suffered an estimated $15 trillion (€10.3 trillion) in lost wealth. Entire countries, such as Iceland, Hungary and Latvia, are teetering on the brink of collapse, and the crisis is estimated so far to have cost the jobs of 60 million workers.

Nothing remains, however, of the pious promises made at the G20 summit in London earlier this year, which issued a call for effective international regulation of financial markets and measures to curb the practices of "system relevant" financial institutions.

Based on bailouts from states all over the world, the leading banks and financial institutions are bigger than ever. They are able to make massive new profits from investing and speculating on the debts acquired by national governments to rescue the banks, and on currency and commodity swings resulting from the crisis.

In its latest edition, the German magazine *Der Spiegel* asks whether banks have learned a lesson from the collapse of Lehman, and concludes: "They have learned, but they've learned the wrong lesson. In retrospect, the Lehman Brothers case no longer seems quite as horrifying to the major banks. … They know now that there will be no repeat of the Lehman debacle. The government will not allow a second major player to fail. In a worst-case scenario, a large Wall Street bank can fall back on the US Treasury—provided it is seen as a 'systemic risk.'"

The magazine goes on to note that the "new buzzword among stockbrokers is 'BAB'"—bonuses are back.

Tensions are growing between European governments and the US as all sides resort to nationalist and protectionist measures in response to the crisis. But on one fundamental class issue, the European and US governments are united: Nothing must stand in the way of the international financial elite, and the working class all over the world must bear the brunt of the crisis.