"A bit of a hoax"

White House unveils token bank pay restrictions

Andre Damon, Joe Kishore
23 October 2009

The Obama administration on Thursday confirmed plans to introduce what amounts to token measures regulating compensation at seven of the firms bailed out by the federal government.

Kenneth Feinberg, appointed by the White House to oversee pay at the firms most directly dependent on government aid, announced details of the program after the administration leaked the plans to the media Wednesday afternoon.

The plan affects only two banks (Citigroup and Bank of America), along with insurance giant American International Group (AIG) and four auto-related companies (Chrysler, General Motors, and their respective finance arms). The regulations apply to the 25 most highly paid executives and employees at each of the companies.

The headline announcement was that the cash salaries of top executives at the companies will be limited to $500,000—in itself more than ten times the median pay of American workers. This, according to some calculations, will amount to a 90 percent salary cut on average across the firms. Overall compensation, on average, will supposedly be cut in half.

These percentages are essentially fraudulent, however. An article in the *Wall Street Journal* Thursday noted, "Several Citigroup officials briefed on the company's dialogue with Mr. Feinberg's office said salaries and total compensation of the company's highest-paid employees aren't expected to shrink dramatically." One executive called the announcements "a bit of a hoax," while others dismissed it as political posturing.

Companies will be able to make up the loss in salary through compensation in the form of stock, with constraints on when the stock can be sold. This corresponds with the administration's position that compensation should be more closely linked to long-term profit—and therefore the interests of top investors.

Moreover, the restrictions will apply only to the last two months of 2009. The executives and most highly paid employees will be allowed to keep everything they received in the first 10 months. Any constraints will be lifted as soon as the companies pay back funds granted them under the Troubled Asset Relief Program (TARP).

According to calculations reported by NBC News on Thursday, 34 executives at AIG, Bank of America and Citigroup will still receive more than $1 million in upfront cash. The top pay at the firms will be between $9 and $10.5 million.

NBC further noted that Bank of America CEO Ken Lewis must give up $1.5 million in salary, but will still leave the company with $70 million in retirement and other benefits at the end of 2009.

Just a few weeks ago, Feinberg approved a $10.5 million compensation package for Robert Benmosche, the incoming chief executive of AIG. Benmosche is set to receive a base salary of $7 million, plus $3 million a year in "performance incentives." Feinberg said this pay was justified because it was in line with industry standards.

The new compensation plan also regulates perks, including the use of corporate funds to pay for outings, jet travel and country club fees. The *New York Times* reported that one AIG employee in particular had received $1.5 million in expenses on corporate jet flights. Large-ticket perks will not be prohibited, however. They will just have to be approved by the government.

An article in the *Wall Street Journal* pointed to other ways in which the government figures are misleading. "The extent of the pay cut for most of the 175 executives will be less severe than the average for the overall group," the newspaper noted. "That's because the average figure will be skewed by at least a few special cases."

The *Journal* pointed in particular to the case of Citigroup trader Andrew Hall. Feinberg negotiated a plan that would allow Citigroup to spin off its energy trading division so that it would not go on record paying Andrew Hall, deferring his

© World Socialist Web Site

$100 million bonus to 2010. Hall will eventually get his millions, but the government plan now lists Hall's 2009 bonus as zero.

President Obama on Thursday endorsed these toothless measures, saying they strike the "right balance." He declared, "I believe [Feinberg] has taken an important step forward today in curbing the influence of executive compensation on Wall Street, while still allowing these companies to succeed and prosper."

For his part, Feinberg said that he must balance the "legitimate anger" of the population with the "absolute need under the statute to find ways to make these companies profitable." He said that it is a "big concern" for him that executives at these companies might leave in search of higher pay. He told ABC News that he will "take another look" at the compensation regulations in 2010.

Feinberg's proposals were worked out in close collaboration with the executives affected. According to a *New York Times* article published Thursday, these discussions lasted for months. The companies themselves "played a central role in the process and its outcome," the *Times* noted.

Highlighting the public relations aspect of the entire process, the article states, "Both camps recognized from the beginning that bailout politics, as much as economics, would shape the final decisions."

The *Times* article notes further: "The executives argued time and again that slashing pay would drive away talented employees, the very workers they needed to help turn their companies around." In the end, they largely got want they wanted.

Perhaps most significantly, the regulations will not apply at all to the vast majority of banks and financial institutions. Feinberg insisted that it was "neither wise nor prudent" to require other companies to follow the same weak guidelines he proposed for the seven still holding TARP cash.

The Federal Reserve unveiled a concurrent plan Thursday to inspect the compensation packages of 28 large banks and several smaller ones. The Fed insisted that there will be no bans on any speculative practices or any explicit caps—in other words, there will be no real limits on executive pay.

The banks under Feinberg's purview have a combined market capitalization of less than ten percent of the financial sector. This is only a small segment of the financial system that has received government aid. As Lawrence Summers, director of Obama's National Economic Council, acknowledged earlier this month, "There is no financial institution that exists today that is not the direct or indirect beneficiary of trillions of dollars of taxpayer support for the financial system."

Indeed, the largest beneficiary of the AIG bailout was Goldman Sachs, which pocketed a significant portion of the $182 billion expended by the government to bail out the insurance company.

Goldman Sachs, JPMorgan Chase and other banking giants have already paid back their TARP funds, though they are still heavily dependent on federal subsidies through other programs. Goldman Sachs is set to pay out the equivalent of its record-setting 2007 bonuses, and has set aside $16.7 billion for compensation this year.

Last year, Goldman Sachs executives Lloyd Blankfein and Gary Cohn each received around $42 million, while Jamie Dimon, JPMorgan's chief executive, received $35 million. Vikram Pandit, the CEO of Citigroup, received $38.2 million.

The major US banks and financial firms are on track to hand out a record $140 billion in compensation this year, according to the *Wall Street Journal*. This is a 20 percent increase from 2008 and $10 billion more than the previous record, set in 2007. Bank bonuses are likewise set to swell this year, with Wall Street prepared to dole out $26 billion in year-end compensation. The near-record figure represents a 40 percent increase over 2008.

The aim of Thursday's announcement is to attempt to convince the population that the government is taking some action against the banks, partly as cover for last week's huge profit reports and partly in anticipation of year-end bonus announcements.

Whatever the administration's hopes, however, this latest maneuver on bank pay only serves to underscore the way in which the Obama administration has advanced the interests of the financial aristocracy, funneling trillions to the banks and ensuring the fortunes of the top executives and traders, while demanding that the working class accept reductions in social spending to reduce the budget deficit and imposing cuts in the wages and benefits of workers at General Motors and Chrysler.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site