Wall Street bonuses to rise by 40 percent

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The authors of the biggest financial catastrophe in world history—executives and traders at US investment and commercial banks—will see their year-end bonuses rise by an average of 40 percent compared to last year, according to a report issued Wednesday by Johnson Associates, a Wall Street-based compensation consulting firm.

Traders in stocks, bonds and derivatives are likely to significantly exceed even that lofty average, with projected bonuses 60 percent higher than in 2008, the company said. Wall Street is making the bulk of its profits this year from such financial speculation, not from more traditional lending to finance business activities in industry and commerce.

According to a Johnson Associates press release, “The improved trading performance we are seeing at investment and commercial banks this year is translating into significantly higher bonuses for traders.” It noted that results on trading of derivatives, the most volatile and lucrative form of speculation, were “solid.”

Bankers engaged in commercial and retail banking will see bonuses lower than 2008, as will most hedge fund operators and private equity firms, since the financial assets they manage are still well below the peak reached in late 2007. While the Dow-Jones Industrial Average is up 3,500 points from its low of March 2009, it is still some 4,000 points below the 2007 record level of more than 14,000.

In a considerable understatement, the bonus survey said that the banks were “outpacing [the] recovery of [the] broader economy.” In 2008, Wall Street firms awarded more than $20 billion in bonuses in the midst of the greatest financial crash since 1929. This year, according to the published estimate, the bonus pool could reach $28 billion.

The *Wall Street Journal*, in its article on the survey, reported, “A typical senior fixed-income trader can expect a total pay package of about $930,000 in cash and stock, compared with a package last year of about $695,000.”

The bonuses for executives at the leading investment houses are in seven and eight figures—Goldman Sachs CEO Lloyd Blankfein, for instance, made over $50 million last year—while hedge fund operators have raked in as much as $1 billion compensation for a single year of “work.”

Spokesmen for the banks were at pains to justify the vast sums being paid out to the speculators under conditions of rising mass unemployment and wage-cutting for the working people, who are the vast majority and perform all the socially useful labor.

In a speech this week, John Varley, CEO of the biggest British bank, Barclays PLC, declared, “I must of course be sensitive to the views of many stakeholders that bankers are paid too much,” but added, “our shareholders and our customers expect Barclays to field the best people we can.” He concluded, “Our objective is to pay the minimum compensation consistent with competitiveness.”

This argument is hard to swallow after the wrecking operation “the best people” have carried out against the world economy over the past two years. Even in boom years, financial speculators do no useful labor. They create nothing of actual value to the human race, but have become expert in financial manipulations that increase, at least temporarily, the monetary value of the resources entrusted to their management by the capitalist ruling elite.

Just what Wall Street traders actually do for a living was underscored by the announcement Wednesday by J.P. Morgan Securities that it will forfeit $722 million in fees and penalties stemming from the bribing of government officials in Jefferson County, Alabama

(Birmingham), to buy derivatives from Morgan and sell county bonds through it.

The Securities and Exchange Commission charged in a lawsuit that two former J.P. Morgan managing directors had funneled $8 million to friends of the county commissioners. Jefferson County is near bankruptcy from $3 billion in losses on the derivatives, mainly interest-rate swaps, while J.P. Morgan was still pressing it for another $647 million in fees on the purchases.

The former president of the county commission, Larry Langford, now mayor of Birmingham, was convicted last week of accepting luxury gifts and cash totaling $235,000 in connection with the scheme. He was automatically removed as mayor upon conviction.

The working-class population of Jefferson County faces a social calamity because of the financial crisis, with cuts in county programs, jobs and benefits. Meanwhile, according to the SEC, J.P. Morgan not only secured the county's business by paying bribes, it added the bribes to the bill it presented to the county—effectively compelling county residents to pay the cost of bribing their own elected officials.

As has been many times observed, the real scandal in American capitalism is not what's illegal, it's what's legal. The crude local bribery in Birmingham, Alabama, has bankrupted one county. The vast and more sophisticated financial skullduggery on Wall Street—and in official Washington—is bankrupting an entire society.