Britain: Bailed out banks still set to pay billions to top execs and traders

Jean Shaoul
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Top UK banking executives and financiers last week defended their decision to hand out huge bonuses this year. Bank bonuses are set to top those paid in 2008 after profits soared following the government bank bailout.

On Thursday last week, Lord Myners, the city minister, revealed that at least 5,000 top executives and traders are each set to pocket at least £1 million in salary and bonuses at a cost of £5 billion plus. Myners, a former City fund manager and former chairman of Marks & Spencer, called on the bankers to "get real." He said there was "precious little evidence" that bank bosses understood the popular opposition to such extraordinary levels of income, under conditions where unemployment was rising, the median income was £20,000 and ordinary people were struggling to get by.

His remarks follow the revelation that the Royal Bank of Scotland (RBS) is planning to pay between £1.5 billion and £2 billion in bonuses to its staff. Last year, the bank paid out £900 million in bonuses, with several hundred bankers taking home more than £1 million apiece. Myners said that the government, which already has a 70 percent stake in RBS but allows it to operate as a private company, would block similar bonuses this year.

RBS responded with outrage, declaring that any ban on bonuses would be "unfair, uncompetitive and unprofessional." Stephen Hester, the chief executive, said that without the bonuses there would be a mass exodus of his top staff that would jeopardise future profits. RBS would be at a "significant competitive disadvantage" and face "increased risks" if bonuses were not paid to key staff. About 1,000 of RBS investment bankers are reported to have left this year for higher pay elsewhere.

RBS's institutional investors, particularly the Association of British Insurers, were reported to be furious at the government's intervention. They feared that their, now minority, shareholding in RBS would be left worthless if bonuses were not paid.

The bank's 12 directors threw down the gauntlet and threatened to resign *en masse* if the government went ahead with its ban, having taken legal advice on how to respond over the payment of bonuses to its investment bankers. Hester said that the potential for conflict depended upon the government's attitude when the final bonus pool was decided.

Chancellor Alistair Darling tried to look tough and declared that he would not be held to ransom. Yet the government has a majority shareholding in RBS and the bank is bust and depends entirely on government support. Five of the very directors who bankrupted it are still in place. Hester himself secured a 50 percent increase in his pay package after joining RBS earlier this year. His pay packet is more than twice his predecessor's compensation package and even higher than that of CEOs at other banks.

RBS has lost billions more this year, but its foreign exchange and investment operations have prospered largely thanks to the government's actions. The government and the Bank of England have ensured that interest rates are low, they have made capital and liquidity injections, bought up toxic assets, provided loan guarantees, deposit insurance and increased the money supply through quantitative easing. Only a few weeks ago, the government announced another round of measures worth £39 billion to shore up both RBS and the Lloyds Banking Group. The total cost of the operation to date is £850 billion, proportionately far more than any other country.

The bailout measures have enabled a raft of new corporate bond sales and debt restructuring, which has generated huge fees and profits for RBS's investment banking division, expected to be about £5-6 billion. The bonus pool for the 20,000-strong division is expected to be 50 percent up on last year, with more than a few traders expecting £10 million plus.

Once RBS enters the Asset Protection Scheme (APS), as agreed last month, the government will own 84 percent of its shares. Darling said that one of the conditions attached to the APS is that the Treasury will have to agree the amount and form of bonuses paid out for 2009. However, earlier this year the Treasury bowed to pressure from RBS that it had to pay the going rate, and in February RBS issued a statement saying that the government had conceded that the bank would pay "competitively with other international banks" for the current year.

Hester's plans for bonuses to RBS investment bankers stand in stark contrast to his plans for the vast majority of RBS staff and low-wage workers in retail banking and call centres. He has already agreed to limit cash bonuses paid to those earning less than £39,000, while higher earners will be paid in shares over three years, as suggested in the Financial Services Authority's new pay code.

Prime Minister Gordon Brown stepped in to calm the storm and reassure RBS that the bank would not be singled out for tough restrictions. No bank would be "discriminated against" as far as this year's bonuses were concerned, he said, "because every bank" will have to follow the rules already agreed by the G20. The G20 agreed last September at Pittsburgh, following pressure from the United States and the UK, to reject any formal cap on bonuses. It settled on toothless proposals that include deferring cash bonuses for three to five years and/or paying bonuses in shares instead of cash, limiting multi-year pay deals, clawing back bonuses in the event of losses, basing pay on risks taken, and limiting total pay for under-capitalised banks, without specifying the limit.

In the end, in his pre-budget report Darling announced a one-off 50 percent tax on any individual discretionary bonus paid above £25,000. The banks, rather than the bankers, would pay the levy, he said, with anti-avoidance measures introduced. The move could raise £550 million, he said, which would be used to help reduce unemployment. But there are already plans in place to circumvent this move. Toby Ryland, a partner at the accountants Blick Rothenberg, told the BBC, "Those that may be affected can be expected to arrange their affairs so as to fall outside the measures. There is already evidence of bonuses having been paid in advance with a view to avoiding this additional tax."

Liberal Democrat Treasury spokesman, Vince Cable, questioned how the government would stop banks paying their employees a higher salary instead of a bonus.

The Lloyds Banking Group, in which the government has a 43 percent stake, has announced it will make a one-off share payment worth about 80 percent of salary to 200 bankers who last year worked on the takeover of HBOS, the failed mortgage lender. Barclays made more than £8 billion in its investment banking division and has already said that it expects a record year. It will evade the bonus tax by giving its 22,000 investment bankers at Barclays Capital pay rises, backdated to June, of up to 150 percent, increasing basic salaries from £130,000 to £300,000 for its junior staff. Other banks have made similar plans.

The investment bankers' income, equal to half the banks' profit, will continue to rise even though the banks are on life support and the wider economy is plunging into the deepest recession since the 1930s. This is the real response of the financial oligarchy and its political agents to the crisis. They have no intention of ceding one penny of their wealth. It is not so much business as usual, as business better than ever for those that have survived. The bailout has in fact only given the bankers a direct line to public funds.