Three top Wall Street banks to award $49.5 billion in year-end bonuses

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The US media has been virtually silent on the colossal year-end bonuses for 2009 that will shortly be handed out by major American banks and financial firms. This is doubtless a deliberate response by the corporate-controlled media to popular anger over the financial gains reaped by Wall Street executives, who have been bailed out at taxpayer expense while working people have been left to face depression levels of unemployment and mounting home foreclosures, hunger and poverty.

A brief article published on the inside pages of the business section of the January 1 *New York Times* ("With Bigger Bonuses, An Upside for Banks") notes in passing that the three top Wall Street banks will pay out an estimated $49.5 billion in cash bonuses and stock awards.

Those banks—Goldman Sachs, JPMorgan Chase and Morgan Stanley—received a combined $45 billion in cash under the $700 billion Troubled Asset Relief Program (TARP) passed by Congress in October of 2008. Along with the rest of the banks, they have benefitted from trillions of dollars in nearly interest-free loans, debt guarantees, securities purchases and other subsidies from the Treasury and the Federal Reserve Board.

The government has further underwritten bank profits and surging bonuses by keeping interest rates at near-zero and pumping trillions of dollars of cheap credit into the financial markets, while placing no restrictions on the ability of the banks to resume the speculative practices that precipitated the financial crash of 2008.

Meanwhile, the American people have lost $11 trillion in wealth, primarily through the collapse of home values. For their part, the banks have sharply curtailed lending over the past 15 months, draining more than $3 trillion of credit from the economy.

In the fall of 2008, the Bush administration, with the support of then-presidential candidate Barack Obama and congressional Democrats, sought to sell the bailout to the public on the grounds that it would enable the banks to resume lending. However, the TARP law imposed no strings on the bailed out banks, allowing them to do with the money what they wanted, without even requiring that they tell the government how they were using their cash windfalls.

The curtailment of lending by the banks has played a major role in deepening and prolonging the recession. Instead of increasing credit to businesses and consumers, the banks have made large—in some cases, record—profits through speculative trading in stocks, bonds, currencies and commodities.

The same article in the *Times* cites Robert Willens, an accounting and tax analyst in New York, who estimates that US banks will hand out $200 billion in total compensation, a figure that does not take into account the hedge fund industry.

To place this sum in perspective, it is roughly equal to the annual median salary of 4 million American workers.

All of the major banks have been allowed by the Obama administration to repay their TARP cash injections, thereby freeing them from minor restrictions on executive pay imposed on banks that continue to hold TARP money.

According to Willens, the banks will reap $80 billion in tax savings from the $200 billion in compensation, since most employee compensation is a tax deductible expense under existing tax laws. The biggest tax break will go to Goldman Sachs, which expects to award its employees a record $23 billion in bonuses. Goldman will save about $9 billion in federal income taxes on the bonuses it pays out for 2009.

Altogether, Goldman, JPMorgan Chase and Morgan Stanley will gain nearly $20 billion in tax breaks from their employee compensation this year.

Indicative of the year-end bonanza for bankers, the *Times* reported in a separate article on January 1 that Wells Fargo, the fourth largest US bank by assets, which received $25 billion in TARP cash, plans to pay its top four executives a combined $25 million in bonuses. These are to be paid entirely in stock options, rather than cash.

In awarding the bonuses in stock rather than cash, Wells Fargo is following the example of other big banks, including Goldman Sachs. Under prodding from the administration, banks are paying a greater portion of executive compensation in deferred stock, supposedly to tie pay awards to long-term growth rather than short-term gains. However, as the *Times* points out, "If banks… continue to rebound from the financial crisis, their shares—and the executive payouts—could surge."

Since the government has made clear that it will impose no genuine reforms or restrictions on the banking industry, and will spend unlimited sums to protect the wealth of the Wall Street elite, the bankers have every reason to believe that stock bonuses will prove more lucrative than cash.

The government's undiminished commitment to rescuing Wall Street was underscored on Christmas eve, when the Treasury announced that it was removing a $400 billion cap on government aid to the mortgage finance giants Fannie Mae and Freddie Mac and approving cash pay packages of $6 million each to the CEOs of the government-controlled firms.

Surging bank profits and bonuses go hand in hand with a dizzying rally on the US stock market. In a year that saw the permanent destruction of millions of jobs, all three major US stock indexes recorded massive increases. The Dow Jones Industrial Average ended 2009 up 18.8 percent for the year. The broader Standard & Poor's 500 stock index surged 23.5 percent, and the technology-heavy Nasdaq rose 43.9 percent.

From their lows in early March, the stock indexes recorded even more staggering gains in a "rally many investors had not seen in their lifetime," according to the January 1 *Washington Post*. The Dow rose 59 percent, the S&P 500 soared 65 percent and the Nasdaq was up 79 percent.

Financial stocks were up 15 percent for the year, including Bank of America, whose share price quadrupled from its March low. Ford stock increased 532 percent from its low point in March.

In all, the value of US stocks increased by $5.6 trillion from the market's nadir, the resulting windfall going disproportionately to the wealthiest investors.

A major factor in the stunning rebound in the financial markets was the refusal of the government to impose any serious reforms in the wake of the worst financial crash since the Great Depression. As the *Wall Street Journal* noted in a year-end review on January 4: "But more than a year after Lehman Brothers, American International Group Inc., Fannie Mae, Freddie Mac and Washington Mutual collapsed or were saved by the government and financial markets swooned, it is striking how little on Wall Street has changed."

The scale and character of the government bailout was summed up aptly by Simon Johnson, the former chief economist at the International Monetary Fund, in a review of recent books on the financial crash. Writing in the December 27 *Washington Post*, Johnson said, "The Wall Street executives kept their jobs, their bonuses and their pensions; they benefitted from unprecedented rule changes and unlimited monetary and fiscal support; and their firms became even bigger and more dangerous to the economic health of society…

"The executives of our largest banks ran their firms into the ground, taking excessive risks that even now they fail to understand fully. But, as these individuals saw it, unless they personally were saved on incredibly generous terms, the world's economy would grind to a halt."

The Obama administration and the Democrats, no less than Bush and the Republicans, agreed that their chief mission was to rescue the personal fortunes of these executives and the financial oligarchy they represent.