

# Bonus bonanza for UK's top bankers

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12 January 2011

The five biggest UK banks are set to pay out massive bonuses for 2010. Chief executives at HSBC, Barclays, Royal Bank of Scotland (RBS), Lloyds and Standard Chartered will receive millions in bonuses, as working people endure unprecedented cuts in pay, working conditions and social services imposed by the Conservative/Liberal Democrat government.

According to the Centre for Economics & Business Research, around £7 billion will be paid out by the banking industry to senior directors and executives this year.

The move by the banks came as a report predicted that the big five will reach profit levels of £51.7 billion in 2011. This equates to a profit of £200 million for each working day for each of the five banks.

Commenting on the decision to pay out the bonuses, the *Financial Times* wrote that “they will press ahead with bonus pay-outs despite the danger of a renewed public backlash.”

Two of the five banks, RBS and Lloyds, had to be taken under state ownership to avert collapse resulting from the rampant speculation leading up to the global financial crisis in the autumn of 2008. RBS is 83 percent owned by the state and has already received at least £45 billion of taxpayers' money to shore it up. A further £280 billion of its high-risk loans have been covered by the state. Another £8 billion of taxpayers' money has been set aside to cover future losses.

Lloyds received £20 billion from the public purse when it was taken into public ownership.

All told, more than £1 trillion of public money, directly and indirectly, was handed over to the banks by the then Labour government in order to bail them out. These same banks are now rewarding their top executives grotesque amounts of money. The two banks in state hands alone are set to pay out more than £1 billion in bonuses to its senior staff this spring. Stephen Hester, the chief executive of RBS, is to be paid up to a £2.5 million bonus as part of a £6.8 million package for 2010.

Stuart Gulliver, the CEO at HSBC, received a £9

million bonus for 2009 and according to a close source expected to receive a “decent” pay-out for 2010.

In the run-up to the annual bank bonus “season”, figures within the government were forced to respond to growing public anger over the vast sums the banks were accruing in profits with populist statements. Deputy Prime Minister and Liberal Democrat leader Nick Clegg said of the banks, “They don't operate in a social vacuum.... The banks should not be under any illusion, this government cannot stand idly by. It is wholly untenable to have millions of people making sacrifices in their living standards, only to see the banks getting away scot-free.”

Last October, Vince Cable, the business secretary, referred to bankers as “gamblers” and “spivs”.

Despite the crocodile tears of politicians of all stripes, there has been no serious attempt to regulate any of the banks' activities, let alone to restrict the payments of massive bonuses to senior executives. Last year the UK Financial Investments (UKFI), which was charged with overseeing the state investment in the banking system, gave its approval to the £1.3 billion bonus pool at RBS. One survey last year found that 2,800 bankers received £1 million or more in the form of a bonus.

Following the formation of the coalition government last May, the banking industry has been in close contact with senior government figures. At the behest of then Barclays CEO John Varley, “Project Merlin” was formed with the aim of coming to a settlement regarding any further regulation of the banking industry. The government had previously called for bankers to commit to a certain level of lending to businesses to be put into place as part of any agreement.

At the Conservative Party conference last year, Chancellor George Osborne said, “We will not allow money to flow unimpeded out of those banks into huge bonuses, if that means money is not flowing out in credit to the small businesses who did nothing to cause this crash and suffered most in it.”

According to the *Daily Telegraph*, at “a pre-Christmas meeting, senior bankers made an offer of £200 billion of

business lending but that number is thought to have been seen as too low by certain government ministers.”

In November, the *Financial Times* pointed out, “Merlin represents a more immediate exercise in self-preservation. The Barclays chief is attempting to broker a ceasefire involving commitments from the banks on remuneration and tax in return for political assurances that no further unilateral levies will be imposed on the industry.”

The plan of the bankers was to have a pact in place by Christmas, well ahead of the planned bonus payments in the spring. In the event, no such formal pact has materialised, and none was needed insofar as the government has now confirmed there will be no political interference with the banks’ “right” to hand out huge bonus payments. Not only has the government stood “idly by” and given the banks carte blanche to pay whatever level of bonus they like, but any further restrictions on the activities have now been lifted. All that is being offered is that bonuses be reined in a tad, providing that wages rise in compensation.

On Sunday’s BBC Andrew Marr Show, Prime Minister David Cameron stated that he was opposed to any “banker-bashing”. Exonerating the banks for the financial crisis, he stated, “We need to recognise though, that there were a lot of people to blame for the mess we are in and that we shouldn’t just think it’s an easy scapegoat to pick one in view.”

“What you won’t hear from me this week is sort of easy, cheap lines kind of just beating up on the market system, bashing the financiers,” he said.

What was required was a “settlement where we recognise that a successful banking sector is part of a successful market economy.”

Stating that the bankers would have free rein to take what they want in pay and bonuses, a spokesman for Cameron later confirmed, “We are not going to set bonus pools for individual banks. We are not going to set pay policy for individual members of staff.”

Even the limited 50 percent tax on any bonus above £25,000 that the banks had to pay in 2010 is to be scrapped. This scheme, which raised £3.5 billion for the Treasury, is to be scrapped and replaced by a new levy on bank holdings that is only expected to raise £1.3 billion in 2011-2012.

Every regulation or piece of legislation that might impinge on the ability of the banks to accrue vast profits is now being challenged. In an interview with the *Sunday Telegraph*, Andrew Tyrie MP, the chairman of the Treasury Select Committee, said, “It may be difficult to

maintain global leadership of financial services with a top rate of income tax at 50pc.”

Denouncing any attempt to cut bankers pay, he added, “Crude banker-bashing won’t solve anything.”

Three of the five banks have appointed new chief executives. This change in personnel has been jumped on by the banking industry to claim that a “new generation” is now in control not associated with past bad practise and who should be entitled to enrichment. Quoted in the *Financial Times*, one “asset management executive” stated, “There has been generational change.... Now is a good time to ensure that top executives are appropriately remunerated so that they are not lured abroad or into hedge funds.”

Just two years after bringing the UK and world economy to the point of meltdown, the banks refuse to accept any check on their speculative activities and self-enrichment. Their representatives in government are only too willing to carry out their every demand.

Sections of the establishment have voiced concerns that allowing the banks free rein will provoke a political and social backlash. In a leader Monday entitled, “A shameful surrender in the battle of the bonuses,” the *Independent* warned, “If, as seems increasingly likely, the Government waves through large bonuses this year, it will prove a fateful decision. The public sector spending cuts will bite hard over the next 12 months and the cost of living will rise steeply. Meanwhile, unemployment, which is painfully high, could well increase further.

“The financial gulf between those privileged few working in the financial sector and the rest of society is on course to widen. The Government’s claim that ‘we are all in it together’ is about to be tested, probably to destruction.”



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