US Treasury rubber-stamps bonus requests from bailed-out firms

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The office tasked with monitoring the $700 billion Troubled Asset Relief Program (TARP) bank bailout fund issued a report Monday revealing that the US Treasury has routinely rubber-stamped requests from bailed-out firms for executive bonuses in excess of guidelines put in place for the ostensible purpose of limiting payouts by these taxpayer-subsidized companies.

The report by Christy Romero, the special inspector general for the Troubled Asset Relief Program (SIGTARP), accused the Treasury Department and its special master for compensation, the so-called "pay czar," of approving "excessive" pay packages for bailed-out companies. Executives at taxpayer-rescued firms "continue to rake in Treasury-approved multimillion-dollar pay packages that often exceed guidelines," the report stated.

The report focused on three bailed-out firms—the insurance giant American International Group (AIG), General Motors, and Ally Financial (formerly General Motors Acceptance Corporation). AIG received more than $182 billion in federal loans and cash, including $40 billion in TARP funds. General Motors received $13.4 billion, and Ally Financial got $17.3 billion.

In 2012, according to SIGTARP, the Treasury Department pay czar signed off on $6.2 million in raises for 18 employees at the three companies, all of which remained partially owned by the federal government, which held large blocks of their stock. The chief executive of an AIG division was granted a $1 million raise, an executive at GM's European unit was given a $100,000 increase, and an Ally Residential Capital official was awarded a $200,000 pay hike just weeks before the subsidiary of Ally Financial filed for bankruptcy.

The report concluded that, despite government guidelines that executives at bailed-out firms be paid no more than the average for similar companies, 63 percent of top executives at the three companies were paid more than their peers. It criticized the pay czar for rubber-stamping the pay requests made by the companies.

Last year, AIG Chief Executive Robert Benmosche was awarded $10.5 million in cash and stock, while Ally CEO Michael Carpenter got $9.5 million and General Motors CEO Daniel Akerson received $9 million. All but one of the top 25 employees at each company received over $1 million in compensation. Combined, the top 16 earners received over $107 million.

In the report, Romero noted that 65 of the 69 senior employees at AIG, GM and Ally were granted cash salaries of $450,000, while in 2011 the median household income of the taxpayers who were compelled to fund the bailout was $50,000.

The Treasury Department's pay czar, Patricia Geoghegan, dismissed the SIGTARP report with undisguised contempt, claiming it was riddled with inaccuracies. She said her office has "limited excessive compensation while at the same time keeping compensation at levels that enable the recipients to remain competitive…" The need to maintain "competitive" pay rates is the standard excuse used to justify the obscene salaries and bonuses that continue to be dished out to banking and corporate executives.

Kenneth Fineberg, Geoghegan's predecessor as pay czar, was similarly dismissive, calling the SIGTARP report "armchair quarterbacking."

Treasury officials, and the banks whose interests the department serves, can afford to pay scant regard to the SIGTARP report because the watchdog agency is, by design, toothless. The TARP legislation that was drawn up by the Bush administration, backed by then-candidate Barack Obama, and ushered through Congress by Republican and Democratic leaders, was crafted to give an appearance of public oversight of the bailout program, while depriving the watchdog agencies of any real power. SIGTARP since its inception has issued critical reports that have been completely ignored by the White House and Congress.

The Obama administration's largesse when it comes to six- and seven-figure compensation packages for GM executives stands in stark contrast to its attitude toward GM workers. In 2009, Obama insisted that the pay of all GM new-hires be reduced to half the pay of veteran workers as part of the bailout of the auto company.

The SIGTARP report underscores the cynicism and duplicity that underlay the creation of the pay czar position from the outset. It was never anything more than a smokescreen to dupe the public into believing limits were being placed on executive pay at bailed-out firms.

The public was overwhelmingly opposed to TARP when it was passed by Congress in early October 2008. In March of 2009, public anger exploded when it was revealed that AIG had paid out $168 million in retention bonuses to executives at its Financial Products division—the very unit whose speculative bets had brought the company to the point of collapse. Bills began making their way through Congress to limit the pay of executives at bailed-out banks and corporations.

Obama and his treasury secretary, Timothy Geithner, came out against the bills, with Geithner famously declaring that the AIG pay agreements had to be honored because of the "sanctity of contracts." The intervention by the Obama administration killed the proposed legislation on executive pay.

Soon after, the administration established the special master for compensation (pay czar) position to placate public anger and create the appearance that something was being done to rein in the avarice of Wall Street. As the SIGTARP report makes clear, this was just another maneuver to deceive the people.