Wall Street Fat Cats Are Trying to Pocket Billions in Bailout Cash

By Nomi Prins
Global Research, November 07, 2008
AlterNet 7 November 2008

Region: USA
Theme: Global Economy

The election results pretty much confirmed the extent to which Main Street is rightly livid about the Wall Street mentality that led to our financial crisis. During his historic victory speech, President-elect Barack Obama told supporters, and the rest of the world, "If this financial crisis taught us anything, it's that we cannot have a thriving Wall Street while Main Street suffers."

But, it seems that Wall Street didn't get that memo. It turns out that the nine banks about to be getting a total equity capital injection of $125 billion, courtesy of Phase I of The Bailout Plan, had reserved $108 billion during the first nine months of 2008 in order to pay for compensation and bonuses (PDF).

Paying Wall Street bonuses was not supposed to be part of the plan. At least that's how Federal Reserve Chairman Ben Bernanke and Treasury Secretary Hank Paulson explained it to Congress and the American people. So, on Oct. 1, when the Senate, including Obama, approved the $700 billion bailout package, the illusion was that this would magically loosen the credit markets, and with taxpayer-funded relief, banks would first start lending to each other again, and then, to citizens and small businesses. And all would be well.

That didn't happen. Which is why it's particularly offensive that the no-strings-attached money is going to line the pockets of Wall Street execs. The country's top investment bank (which since Sept. 21 calls itself a bank holding company), Goldman Sachs, set aside $11.4 billion during the first nine months of this year — slightly more than the firm's $10 billion U.S. government gift — to cover bonus payments for its 443 senior partners, who are set to make about $5 million each, and other employees.

Whereas Wall Street may not believe in higher taxes for the richest citizens, it does believe in higher bonuses for the head honchos. No matter what the market conditions are on the outside, steadfast feelings of entitlement tend to prevail.

Last year, when the financial crisis was just brewing, the top five investment banks paid themselves $39 billion in compensation and bonuses, up 6 percent over 2006. Goldman's CEO, Lloyd C. Blankfein, bagged a record bonus of $60.7 million, including $26.8 million in cash. That amount was nearly double the $38 million that Paulson made at the firm in 2005, the year before he became the Treasury secretary, a post for which he received unanimous approval from the Senate on June 28, 2006 .

Two of those firms, Bear Stearns and Lehman Brothers, went bankrupt this year. Bank of America is acquiring a third, Merrill Lynch. Shares in the remaining two, Morgan Stanley and

Goldman Sachs, took a 60 percent nosedive this year.

Yet, that didn't stop their campaign contribution money from spewing out. Goldman was Obama's largest corporate campaign contributor, with $874,207. Also in his top 20 were three other recipients of bailout capital: JP Morgan/Chase, Citigroup and Morgan Stanley.

Last week, House Oversight Committee Chairman Henry Waxman, D-Calif., gave the bailout capital recipient firms until Nov 10 to come up with some darn good reasons to be paying themselves so much (PDF). Specifically, he requested detailed information on the total and average compensation per year from 2006 to 2008, the number of employees expected to be paid more than $500,000 in total compensation, and the total compensation projected for the top 10 executives.

Similarly, New York state Attorney General Andrew Cuomo demanded information about this year's bonuses, including a detailed accounting of expected payments to top management and the size of the firms' expected bonus pool before and after knowing that they would be recipients of taxpayer funds.

The deadline Cuomo set for receiving bonus records was Nov. 5. Predictably, the firms in question requested more time as the date approached — it takes a while to massage numbers, after all.

Meanwhile, they have been subtly releasing data to the media regarding how much lower bonuses will be this year, in order to combat inspection and criticism. This is Wall Street in its best defense mode, projecting an aura of accommodation and self-pity (because it's shedding jobs, too), in order to maintain a status quo state of self-regulation.

House Financial Service Committee Chairman Barney Frank is holding his own oversight hearing on the matter next week, having announced that "any use of the these funds for any purpose other than lending — for bonuses, for severance pay, for dividends, for acquisitions of other institutions, etc. — is a violation of the terms" of the bailout plan.

Banks are going to tell Congress that of course they won't use that $125 billion for bonuses — it will go to shoring up balance sheets and for acquisitions just like they promised. And bonus money will come from earnings, as it always does.

If it sounds like accounting mumbo-jumbo, that's because it is. It doesn't matter where in the balance sheet capital comes from or goes, the point is there's more of it because of taxpayer redistribution in the wrong direction than there would have been otherwise, and that's not just. This begs the larger question: Why pay bonuses in a year of massive financial destruction, anyway?

"Exactly," says Gar Alperovitz, co-author, with Lew Daly, of the new book Unjust Deserts. "We're making homeowners take a big hit, and if there's any justification for any of these bonuses — which is dubious — sharing that burden is important."

But that's not quite the sharing that Wall Street wanted from the bailout package. Yet, if "change has come to America ," as per Obama's promise, then it's high time for Wall Street to shoulder its part — starting with this bonus season. A decisive move by Obama on this topic would go a long way toward solidifying the central promise of his campaign.

Nomi Prins *is a senior fellow at the public policy center Demos and author of Other*

People's Money and Jacked: How "Conservatives" are Picking Your Pocket (Whether You Voted for Them or Not)

The original source of this article is AlterNet
Copyright © Nomi Prins, AlterNet, 2008

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: **Nomi Prins**

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca