Obama Calls Wall Street Bonuses "Shameful"

Friday, 30 January 2009
Last Updated Friday, 30 January 2009

By SHERYL
GAY STOLBERG and STEPHEN
LABATON

Published: January 29, 2009 (New York Times)

WASHINGTON — President
Obama branded Wall Street bankers “shameful” on Thursday for giving themselves nearly $20 billion in bonuses as the economy was deteriorating and the government was spending billions to bail out some of the nation’s most prominent financial institutions.

Stephen Crowley/The New York Times

Treasury Secretary Timothy F. Geithner, left, President Obama and Vice President Joseph R. Biden Jr. in the Oval Office.

“There will be time for them to make profits, and there will be time for them to get bonuses,” Mr. Obama said during an appearance in the Oval Office with Treasury Secretary Timothy
F. Geithner. “Now’s not that time. And that’s a message that I intend to send directly to them, I expect Secretary Geithner to send to them.”

It was a pointed — if calculated — flash of anger from the president, who frequently railed against excesses in executive
compensation on the campaign trail. He struck his populist tone as he confronted the possibility of having to ask Congress for additional large sums of money, beyond the $700 billion already authorized, to prop up the financial system, even as he pushes Congress to move quickly on a separate economic stimulus package that could cost taxpayers as much as $900 billion.

This week alone, American companies reported as many as 65,000 job cuts, and public anger is rising over reports of profligate spending by banks and investment firms that are receiving help from the $700
billion bailout fund. About half of that money is still available, but the new administration has yet to announce how it will use it, and many analysts think it will take far more to stabilize the banking system.

Should Mr. Obama have to go to Congress to seek more money for the bailout fund to avert the failure of more banks, he would most likely encounter opposition within both parties and demands for tighter restrictions on pay for executives of institutions that receive government assistance.

Mr. Geithner has already signaled a willingness to impose stricter compensation limits as part of a revamped approach to dealing with the banking crisis, but with his strong words on Thursday, Mr. Obama seemed intent on reassuring Congress and the public that he would step up the pressure on bankers before granting them additional assistance.

Mr. Obama was reacting to a report by the New York State comptroller that found financial executives had received an estimated $18.4 billion in bonuses for 2008, less than for the previous several years but the same level of bonuses as they received in 2004, when times were flush.

“That is the height of irresponsibility,” Mr. Obama said. “It is shameful. And part of what we’re going to need is for the folks on Wall Street who are asking for help to show some restraint and show some discipline and show some sense of responsibility.”

The Obama administration and lawmakers have begun to consider ways to control executive pay; the bailout fund, known as the Troubled Asset Relief Program, or TARP, would be the main vehicle for exerting such control. The administration of former President George
W. Bush issued guidelines last October to try to control executive pay at companies receiving government help, but so far they have done little to curb large salaries.

During his confirmation hearings, Mr. Geithner said the administration is preparing rules that would require executives at companies receiving taxpayer money to agree that any compensation above a certain amount — he did not specify how much — be “paid in restricted stock or similar form” that could not be liquidated or sold until the government had been repaid.

Some lawmakers, meanwhile, have said they are considering so-called “clawback” provisions that could be invoked by the government to take back bonuses and executive pay from officials at companies that encountered problems.

In the meantime, public outrage is already forcing some companies to rein in their lavish spending. John
A. Thain, the former Merrill
Lynch executive who was forced out of Bank
of America, said this week he would reimburse Bank of America for an expensive renovation of his office that included an $87,000 area rug and $35,000 commode.

But it took the urging of the Obama administration to force Citigroup, which received an infusion of taxpayer funds last year, to abandon plans to buy a $50 million corporate jet. On Thursday, Mr. Obama made reference to the jet, without singling out Citigroup by name; his remarks came one day after the president met at the White House with business leaders, including Richard D. Parsons, the new chairman of Citigroup.

On Capitol Hill, Senator Christopher J. Dodd of Connecticut, the chairman of the Senate Banking Committee, issued his own warning on Thursday, saying companies would be summoned to testify if taxpayer money was involved.

“Whether it was used directly or indirectly, this infuriates the American people and rightly so,” Mr. Dodd said. “So I say to anyone else who does it, if you do it, I’m going to bring you before the committee.”

There is also political pressure to rein in pay in industries beyond banks and investment firms. The pressure reflects the substantial disparities between pay increases for senior executives, the low rate of wage growth for workers and the frequent disconnect between compensation and the long-term strategic success or failure of corporations.

Mr. Obama’s message on Thursday was reinforced by Vice President Joseph R. Biden Jr., who pledged in an interview with CNBC and The New York Times that the government would spend the remaining $350 billion of the troubled assets money “wisely and prudently and transparently.”

Mr. Biden said that he, like the president, was outraged by reports of large bonuses going to Wall Street executives.

“I’d like to throw these guys in the brig,” he said. “They’re thinking the same old thing that got us here, greed. They’re thinking, ‘Take care of me.’ ”

John Harwood contributed reporting.

(New York Times)