Strong Year for Goldman, as It Trims Bonus Pool

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By Graham Bowley
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No one was crowing about their big paychecks at Goldman Sachs headquarters in New York on Thursday. Despite a record 2009, the bank announced that it had set aside only $16.2 billion to reward its employees. Only?

If you have never worked on Wall Street, it is hard to grasp how 11 figures could be anything less than an enormous payday. But for Goldman, the financial and political calculations used to tally that number also added up to an uncharacteristic show of restraint.

In a surprising concession to the public outcry over big Wall Street bonuses, Goldman broke with the longtime industry practice of earmarking roughly half of its annual revenue for compensation. Indeed, the bank did the unthinkable for the final months of 2009: It subtracted about $500 million from its pay pool, rather than add more money to it, even though the bank earned a healthy $4.95 billion for the quarter, above Wall Street expectations.

Granted, Goldman’s employees are still well paid by any measure. If compensation were spread evenly among its 32,500 employees, each would collect about $498,000. That’s less than the $700,000 some had predicted several months ago. But in practice, pay at Goldman, as at other banks, is skewed heavily toward top producers, who stand to earn many millions while others collect much less.

But after the anger over big bonuses for bankers and, in particular, moves in Washington to clip Wall Street’s wings, Goldman moved to deflect criticism of its resurgent profits and pay. Its bonus pool news was released on the same day that President Obama proposed legislation to limit the scope and size of large financial institutions and declared that banks nearly brought down the economy by taking “huge, reckless risks in pursuit of quick profits and massive bonuses.”

Within Goldman, employees grudgingly accepted the news Thursday, although some said they expected to be rewarded — and soon — for playing along with what they characterized as a temporary public relations exercise. The share of revenue being devoted to bonuses, 35.8 percent, was the lowest since the bank became a public company a decade ago. One employee in the Manhattan office said he believed Goldman would tack on extra money for pay during the first quarter and thus make up the difference. Another said he reserved judgment until he learned how much Goldman’s top executives were being paid.

They and other Goldman employees spoke on the condition that they not be named, for fear of running afoul of their bosses.

“It all depends on what Lloyd gets,” said one midlevel Goldman employee, referring to Lloyd C. Blankfein, Goldman’s chairman and chief executive. He said Mr. Blankfein’s bonus had become
a popular water-cooler topic. “If Lloyd takes home a big bonus, even if it’s all stock, and everyone else receives less, there will be some concern,” he said.

In a tense conference call with journalists, David A. Viniar, Goldman’s chief financial officer, repeatedly said the bank was showing restraint in its pay policies while trying to be fair to employees. “We are not blind to the economic environment and the pain and suffering still going on around the world,” Mr. Viniar said.

In an earlier concession to the public mood, Goldman announced in December that its top 30 executives would be paid only in deferred stock, with no cash component. Now, nearly everyone on Wall Street is waiting to see how much stock will be awarded to Mr. Blankfein.

In 2007, he was paid $68 million, a Wall Street record. He did not receive a bonus in 2008, but his bonus check for 2009 is expected to include several zeros, especially given Goldman’s record year in 2009.

Details of Mr. Blankfein’s stock award are expected to emerge as soon as the Goldman board approves it, probably next week, and now everyone on Wall Street is waiting to find out who gets what from Goldman’s bonus pool.

Mr. Blankfein made no public appearance on Thursday as Goldman disclosed its 2009 financial results. Instead, in a terse statement, he referred to the full-throated outcry under way from Washington against Wall Street’s big paydays while the rest of the economy was still suffering: “Recognition of the broader environment,” he said, had prompted the firm to moderate what it could have paid its employees.

Some critics doubted whether such temperance would be enough to puncture public criticism of Wall Street bonuses. “The bonuses just add insult to injury,” said Representative Dennis J. Kucinich, Democrat of Ohio, who has proposed a 75 percent bonus tax on Wall Street banks. “If they want to regain public confidence, they should reduce or eliminate their bonus pool. You are going to see a backlash developing against Wall Street.”

Lynn A. Stout, a professor of securities law at the University of California, Los Angeles, said the bank was “parasitical,” since it earned most of its profits from trading, not lending: “Goldman Sachs needs to become a socially productive member of society,” she said. “At the moment, they don’t have that claim.”

Goldman’s move undermined banks’ claims that they could never cut bonuses because they would lose talent, said Lucian A. Bebchuk, a professor of finance at Harvard and an adviser to the United States Treasury on compensation. “This announcement suggests that firms have flexibility in setting pay levels,” he said.

Mr. Viniar, meanwhile, who had one eye on his own employees and another on the political mood in Washington, refused to be drawn into whether the moderation in bonuses was a longstanding commitment to lower pay or a short-term measure that would be reversed next year.
It should be regarded “not as a one-time thing and not necessarily not as a one-time thing,” he said.

As it disclosed its results for 2009, Goldman said it made a record profit of $13.4 billion for the whole year on revenue of $45.2 billion.

After a period in which the federal government devoted billions of taxpayers dollars to bailing out the banking industry, Mr. Viniar admitted that the bank had been “clearly helped by government actions and policies.”

But he quickly pointed out that Goldman had repaid its federal bailout aid — with interest — and rebuffed ideas that the firm benefited from all government policies. Goldman did not especially gain any advantage from the current low interest rates, he said, because it used financial hedging to thrive in both low and high interest rate environments.

“It was not the only thing that drove our performance,” he said in an interview, referring to government programs supporting the banking industry. “Our people, I think, did a really good job.”

Mr. Viniar said Goldman’s rebound in 2009 from its single quarterly loss in the final three months of 2008 had been led by its strong trading activities.

That activity dropped off in the fourth quarter of 2009, he said, but revenue was made up by a strong showing in investment banking activities, like equity and debt underwriting. The steep slowdown in trading, however, had already begun to reverse itself in 2010, he said.

*Zachery Kouwe contributed reporting.*