The Payout to the Boss of RBS Is a Disastrous Deal for the Taxpayer

The Guardian
Aditya Chakrabortty
January 23, 2012

How much would you pay the boss of RBS? No one in Westminster would be crass enough to put it like that, naturally; but that's the fundamental question party leaders are addressing in their arguments about Stephen Hester's bonus.

Except that when Ed argues that the chief executive shouldn't get his annual top-up, and Nick coughs about the need for restraint and Dave tries to get everyone to look away by loosing the hounds on Fred Goodwin, they always leave out the most important bit: how Hester's payout is taxpayer money. As chief executive of a bank that is 83% owned by taxpayers, Hester is as much a public-sector worker as anyone behind the desk at your local JobCentre. If ministers wanted to block his bonus, they could. Indeed, they could renegotiate all the salaries paid out to the board of RBS. The government could quite legitimately point that these sums are transfers from ordinary families, many of whom face redundancies and pay freezes. So let's tweak the original question: how much should we pay Stephen Hester? This strikes me as a perfectly legitimate subject for democratic debate – especially under the coalition that a couple of years ago published the names and salaries of 300 top government officials

Well, we know how much the RBS boss got last year. The bank's annual report shows his salary as £1.22m. Add in the benefits and pensions and the shares awarded as part of the company's incentive scheme, and Hester was awarded a total of £5.85m last year. You may not have thought he was on so much, largely because the press normally quotes only the not-so-basic pay. But the rest would be what Harvard law professor and corporate-governance expert Lucian Bebchuk calls "camouflage" compensation – that is, payment expressly designed not to be noticed by the public and so not stir up outrage.

Some might look at that £5.85m and shrug that this is the price you pay for someone to turn around a failed bank. Bear in mind, though, that Hester is head of a public enterprise; in that sense his excessive pay is a burden on the business. On average, Britons contribute £5,280 each in income tax every year: so effectively, 1,107 individuals worked flat out for a year to pay for Hester.

This isn't personal. I'm sure the RBS boss is as nice a chap as ever came through Credit Suisse's investment bank, where he spent 20 years. Were I less happily caffeinated, I might dwell longer on the fact that Hester worked in finance during a historic bull market, before going on to British Land during an unprecedented property boom. Good or bad, we don't know his true capabilities; but he sure knows how to pick his cash cows.

Still, the fundamental point is that this is public cash that might otherwise go into hospitals, schools, housing benefit for poor families – or back to you in tax cuts. Instead, it's going to one man. Is he worth it? Hester's total pay is 97 times the average RBS employee's income and pension contribution. Let's accept that he is a very able executive working in a gruelling

environment – but is he really 97 times more brilliant or productive than the next man or woman?

"Whatever we decided to pay Stephen Hester, people would regard it as too much," writes Alistair Darling in his memoirs. "Like it or not, bankers are paid a great deal of money, and if we were to salvage anything from RBS, I needed to get the best possible candidate and to pay him what was needed to do so." With those sentences, the former chancellor neatly sums two of the main arguments for giving people at the top more money: that they are super-talented, and that without those sums they would simply leave.

Yet Hester isn't some kind of super-banker. Pay-watchers One Society point out that in 2010, while Hester's total remuneration went up 71%, the value of his bank rose 33%. And over the past year, RBS's share price has nearly halved. Nor are British bosses hotly sought-after abroad. Indeed, the list of British heads of global businesses is short and not especially sweet: it includes Tony Hayward, who was drummed out of BP, and Martin Sullivan who was head of, um, AIG, recipient of the biggest corporate bailout in US history.

Announcing his proposals on executive pay today, Vince Cable went some way to distancing himself from the notion that executives are merely getting the going rate. Extra power for shareholders; more transparency on rewards: who could quibble with such policies? But it would have been better if he had broken the influence bosses have on their pay-setting boards. Not only should workers sit on remuneration committees, the same forum should discuss pay for the rank and file, as well as the top.

Over the past fortnight, residents of the Westminster bubble have jawed on about reforming capitalism. Politicians like that, as it allows them to gaze into the middle distance and use words like "responsible" and "moral". The rest of us can judge whether any of this means anything by seeing what ministers do about RBS. We might remember the letter Warren Buffett sent to his investors in 2004: "In judging whether corporate America is serious about reforming itself, CEO pay remains the acid test." The same goes for Westminster, too, and how it tackles the most lavishly rewarded public servant of all time.