What Red Ink? Wall Street Paid Hefty Bonuses

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By Ben White
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By almost any measure, 2008 was a complete disaster for Wall Street — except, that is, when the bonuses arrived.

Despite crippling losses, multibillion-dollar bailouts and the passing of some of the most prominent names in the business, employees at financial companies in New York, the now-diminished world capital of capital, collected an estimated $18.4 billion in bonuses for the year.

That was the sixth-largest haul on record, according to a report released Wednesday by the New York State comptroller.

While the payouts paled next to the riches of recent years, Wall Street workers still took home about as much as they did in 2004, when the Dow Jones industrial average was flying above 10,000, on its way to a record high.

Some bankers took home millions last year even as their employers lost billions.

The comptroller's estimate, a closely watched guidepost of the annual December-January bonus season, is based largely on personal income tax collections. It excludes stock option awards that could push the figures even higher.

The state comptroller, Thomas P. DiNapoli, said it was unclear if banks had used taxpayer money for the bonuses, a possibility that strikes corporate governance experts, and indeed many ordinary Americans, as outrageous. He urged the Obama administration to examine the issue closely.

"The issue of transparency is a significant one, and there needs to be an accounting about whether there was any taxpayer money used to pay bonuses or to pay for corporate jets or dividends or anything else," Mr. DiNapoli said in an interview.

Granted, New York's bankers and brokers are far poorer than they were in 2006, when record deals, and the record profits they generated, ushered in an era of Wall Street hyperwealth. All told, bonuses fell 44 percent last year, from $32.9 billion in 2007, the largest decline in dollar terms on record.

But the size of that downturn partly reflected the lofty heights to which bonuses had soared during the bull market. At many banks, those payouts were based on profits that turned out to be ephemeral. Throughout the financial industry, years of earnings have vanished in the flames of the credit crisis.

According to Mr. DiNapoli, the brokerage units of New York financial companies lost more than $35 billion in 2008, triple their losses in 2007. The pain is unlikely to end there, and Wall Street is betting that the Obama administration will move swiftly to buy some of banks' troubled assets to encourage reluctant banks to make loans.

Many corporate governance experts, investors and lawmakers question why financial companies that have accepted taxpayer money paid any bonuses at all. Financial industry executives argue that they need to pay their best workers well in order to keep them, but with many banks cutting jobs, job options are dwindling, even for stars.

Lucian A. Bebchuk, a professor at Harvard Law School and expert on executive compensation, called the 2008 bonus figure "disconcerting." Bonuses, he said, are meant to reward good performance and retain employees. But Wall Street disbursed billions despite staggering losses and a shrinking job market.

"This was neither the sixth-best year in terms of aggregate profits, nor was it the sixth-most-difficult year in terms of retaining employees," Professor Bebchuk said.

Echoing Mr. DiNapoli, Professor Bebchuk said he was concerned that banks might be using taxpayer money to subsidize bonuses or dividends to stockholders. "What the government has been trying to do is shore up capital, and any diversion of capital out of banks, whether in the form of dividends or large payments to employees, really undermines what we are trying to do," he said.

Jesse M. Brill, a lawyer and expert on executive compensation, said government bailout programs like the Troubled Asset Relief Program, or TARP, should be made more transparent.

"We are all flying in the dark," Mr. Brill said. "Companies can simply say they are trying to do their best to comply with compensation limits without providing any of the details that the public is entitled to."

Bonuses paid by one troubled Wall Street firm, Merrill Lynch, have come under particular scrutiny during the last week.

Andrew M. Cuomo, the New York attorney general, has issued subpoenas to John A. Thain, Merrill's former chief executive, and to an executive at Bank of America, which recently acquired Merrill, asking for information about Merrill's decision to pay $4 billion to $5 billion in bonuses despite new, gaping losses that forced Bank of America to seek a second financial lifeline from Washington.

A Treasury Department official said that in the coming weeks, the department would take action to further ensure taxpayer money is not used to pay bonuses.

Even though Wall Street spent billions on bonuses, New York firms squeezed rank-and-file executives harder than many companies in other fields. Outside the financial industry, many corporate executives received fatter bonuses in 2008, even as the economy lost 2.6 million jobs.

According to data from Equilar, a compensation research firm, the average performance-based bonuses for top executives, other than the chief executive, at 132 companies with revenues of more than $1 billion increased by 14 percent, to $265,594, in the 2008 fiscal year.

For New York State and New York City, however, the leaner times on Wall Street will hurt, Mr. DiNapoli said.

Mr. DiNapoli said the average Wall Street bonus declined 36.7 percent, to $112,000. That is smaller than the overall 44 percent decline because the money was spread among a smaller pool following thousands of job losses.

The comptroller said the reduction in bonuses would cost New York State nearly $1 billion in income tax revenue and cost New York City $275 million.

On Wall Street, where money is the ultimate measure, some employees apparently feel slighted by their diminished bonuses. A poll of 900 financial industry employees released on Wednesday by eFinancialCareers.com, a job search Web site, found that while nearly eight out of 10 got bonuses, 46 percent thought they deserved more.