

MAY 2009

**BANKERS'
PAY**

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DEBATING MATTERS
TOPIC
GUIDES

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MOTION:

**“THE UK
GOVERNMENT
SHOULD IMPOSE
LIMITS ON
BANKERS’ PAY”**

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KEY TERMS

Wall Street

City of London

INTRODUCTION

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1 Financial services are under a huge amount of scrutiny for their role in the Crash of 2008. From anti-G20 protestors [Ref: Guardian] to mainstream commentators [Ref: Guardian], many hold the City of London and Wall Street responsible for the current situation and there has been widespread slamming of 'greedy bankers', who earned enormous bonuses by risking and losing huge amounts of other peoples' money. The former head of RBS, Sir Fred Goodwin, became the target of popular disdain for initially insisting on keeping his £700,000 a year pension (which was contractually his) despite overseeing the downfall of the bank [Ref: BBC News]. 'Fred the Shred' had the windows of his Edinburgh home smashed by anarchists [Ref: Sky News] and was deemed 'obscene' by Lord Mandelson [Ref: Guardian].

The condemnation of bankers seems more overwhelming still when even the financial sector accepts a degree of culpability [Ref: Goldman Sachs]. Indeed, bankers have become such a target of moral opprobrium that Gordon Brown accused the sector of operating outside of everyday human values and principles. Public ire has pushed some commentators to suggest that the tighter regulation of banker remuneration is what is needed. But critics warn that we should be extremely wary of this kind of moral condemnation. They argue that arguments for docking pay are at best an example of cynical political opportunism, and at worst could exacerbate our economic problems. Has the time come to rein in the greedy bankers? Or are we in danger of misdiagnosing the problem and stigmatising success and risk-taking more broadly?



They gain, we pay?

The rage directed at bankers and their bonuses stems from the fact that while bankers benefited greatly during the boom – disproportionately and unfairly, according to some – it has been the taxpayer who has most suffered in the downturn, with the state bailing out several major financial institutions. Many people from across the political spectrum see this as a case of private profits and socialised loss: ‘they gain, we pay’. Further, the ‘bonus culture’ itself is seen to have precipitated the crisis by encouraging risky, even reckless, behaviour, with massive rewards for success but few penalties for failure. Consequently, many are calling for an overhaul in bankers’ pay so that pay and performance are more closely linked, with some demanding that a maximum wage should be implemented. Some go further still by suggesting that income inequality has grown massively over the past decades and needs to be corrected – starting by targeting the fat cats.

Is there more to banker bashing?

However, several commentators – on the political left as well as right – have argued against what they see as facile ‘banker-bashing’. They suggest that the vitriol directed at bankers is a distraction from the real fundamental economic problems we face today. Pointing to the sluggishness of economic activity in the Western world over recent years, some say that the source of the crisis lies with the atrophy of the real economy, reaching back as far as the 1980s. Financial journalist Daniel Ben-Ami argues that it was this economic sluggishness that led to a bloated financial market, making it more lucrative for firms to play the markets, rather than reinvest productively. In

their failure to grapple with, or even acknowledge, this long term economic trend, he suggests the political elites must take some responsibility. In these circumstances scapegoating the bankers (especially when done by the governing politicians) [Ref: [Daily Telegraph](#)] shifts liability away from others who are also responsible, such as the government. A number of writers have also expressed concern that the recent attacks on ‘greed’ - today personified by bankers - feed in to a broader culture of low horizons that is ambivalent towards ambition and the pursuit of prosperity. This, they suggest, doesn’t only impact on failed bankers, but has far reaching implications for us all.

How should remuneration work in the financial sector?

Banks have defended the bonuses paid out to bankers on the basis of ‘incentivisation’. Bankers’ salaries are often relatively small compared to that earned through bonuses with the latter used to encourage productivity. However, commentators such as Martin Wolf have pointed out that the size of bonuses encouraged bankers to take on excessive risk in financial dealings. Many agree and have put forward proposals to limit banker’s pay; in the United States President Obama has said that firms that receive government bailouts will see salaries capped at \$500,000 (to be removed once government funds are repaid), a tiny fraction of their formal levels. Countering Obama others claim that introducing caps will be counterproductive, ultimately working to discourage the kind of talent needed to contribute to and ultimately repair the economy.



Taking risks or playing safe?

The argument for long-term restriction partly hinges on the view taken on what role financial services should play in the economy. Now that a number of banks in the UK are partly or wholly publicly owned, some argue that the state should have a say in setting remuneration systems. Restricting pay therefore implies that banks should be reined in by the government with risk-taking discouraged – a ‘safe and steady’ approach whereby banks operate more as public utilities. But others are concerned at the direction of such a move. Despite the sector’s recent failures, they suggest that financial services expertise is crucial to the UK economy. A move towards utility only banking would not only hinder its recovery, but could kill it off altogether (Ref: [Lex vs Wolf Blog](#)). A number of commentators are now reemphasising the important role that banks must play in taking risks in the allocation of capital for investment in the interests of rebuilding a healthy, productive economy. Allowing banks to return to private sector ownership, they argue, will enable them to start doing this. The role of the state is fundamental to this question, with many asking whether it can continue to intervene whenever something goes wrong.

Make the pips squeak?

Critics of bankers’ pay nevertheless claim that it is an injustice that some should earn millions a year whilst many essential workers, such as nurses, are paid a fraction of this and feel that bankers’ wealth should be channelled to more needed areas. A similar argument is made in relation to Premiership footballers [Ref: [Debating Matters Topic Guide](#)]. Practically no one would argue today that bankers haven’t made grave mistakes or

that top bankers’ earnings aren’t enormous. But it doesn’t necessarily follow that it is a political imperative to limit their pay. Attacking the bankers can be seen as a cheap, populist gesture, rather than a serious attempt to deal with the recession. Some commentators have noted that anti-banker sentiment is informed by a ‘politics of envy’, wherein ‘equality’ comes to mean ‘sharing out the pain’ of the recession, rather than achieving more for all. Hence, some radical critics have warned against banker-bashing for focusing on the superficial element of bankers pay, rather than on what they see as systemic problems – namely, that the capitalist system is prone to periodic crises of the sort we are witnessing now.



ESSENTIAL READING

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NOTES

Q&A: Bank bonuses

BBC News 9 February 2009

Interview with the FSA chief executive, Hector Sants, on bankers' bonuses

BBC News 27 February 2009

For

Capping the banks' fat cats

Rem Sikha *Guardian* 15 February 2009

Now for a maximum wage

Andrew Simms *Guardian* 6 August 2003

Bankers and their salaries

New York Times 19 September 2008

Money for nothing

Paul Krugman *New York Times* 27 April 2009

Populism over bankers pay

Martin Wolf *Lex vs Wolf blog ft.com* 2 February 2009

End this culture of greed. If Obama can, Labour must

PollyToynbee *Guardian* 7 February 2009

Against

Getting to the root of the economic crisis

Daniel Ben-Ami *spiked* 7 May 2009

Seeing red over 'Fred the Shred'

Rob Lyons *spiked* 3 March 2009

The rich under attack

Economist 2 April 2009

Capitalism will get us out of this

Brendan O Connor *Irish Independent* 15 March 2009

Offer decent bonuses to keep the profit centres ticking over

Jo Johnson *Lex vs Wolf blog ft.com* 9 Feb 09

We need the bonus culture to help us out of the recession

David Buik *Guardian* 6 February 2009

In Depth

Easier for a camel: special report on the rich

Phil Coggan *Economist* 2 April 2009

Bullets meant for bankers could kill the welfare state

Anatole Kaletsky *The Times* 27 April 2009

On the Origin of Bankers' Giant Bonuses

Eduardo Porter *New York Times* 9 March 2009

Are the banks to blame?

Anindya Bhattacharyya *Socialist Worker Online* 27 January 2009



BACKGROUNDEERS

UK in recession

BBC News

Global Recession

Guardian

UK after the recession blog

Remarks by Lloyd C. Blankfein to the Council of Institutional Investors

Goldman Sachs Public Policy April 2009

'The Bonus Debate Is a Convenient Distraction'

Michael Scott-Moore *Spiegel Online international* 23 March 2009

The Times Poll: Banking bonus questions

Populus Polls February 2009

Martin Wolf vs Lex correspondence

FT Blogs 9 – 11 February 2009

Do not destroy the essential catalyst of risk

Lloyd Blankfein *Financial Times* 8 February 2009

Greed – and fear: A special report on the future of finance

Edward Carr *Economist* 22 January 2009

Now or Never

Fabian Review Winter 2008/09

Capitalism, the financial crisis and us

Dolan Cummings *Battle in Print 2008* 29 October 2008

2008 Annual Survey of Hours and Earnings

Office of National Statistics 14 November 2008

Explaining the toxic crisis of capitalism

Socialist Worker Online 23 September 2008

Bankers to apologise for mistakes

Nick Robinson and Robert Peston on *Today Programme*, BBC Radio 4 10 February 2009

Crash – How the Banks Went Bust Presenter

Will Hutton *Dispatches*, Channel 4

Crash – How Long Will it Last?

Will Hutton *Dispatches*, Channel 4

Hefty banker bonuses: Yes or No?

Sky News 5 February 2009

ORGANISATIONS

Bank of England

British Bankers Association

FSA

G-20

G20 meltdown

World Economic Forum

Goldman Sachs

Lehman Brothers

Royal Bank of Scotland

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NOTES



IN THE NEWS

RBS sheds Goodwin \$32m jet

Guardian 8 May 2009

Bankers made 'astonishing mess'

BBC News 1 May 2009

City high-flyers are paid too much, argues Archbishop of Canterbury

The Times 26 April 2008

Fix financial sector or prolong recession

Guardian 23 April 2009

G20 takes steps in right regulatory direction

The Times 7 April 2009

Lord Myners under pressure over Sir Fred Goodwin's pension deal disclosure claim

Guardian 1 April 2009

London Protesters Threaten Bankers, Evoke Executions

Bloomberg 27 March 2009

Sir Fred Goodwin's home attacked

BBC News 25 March 2009

Apologise for the recession? Brown's credit crunch tantrum at 30,000ft

Daily Mail 8 March 2009

EU to launch assault on bankers' bonuses

Daily Telegraph 27 February 2009

Lloyds defends staff bonus plans

BBC News 15 February 2009

Recession 'making way for morals'

BBC News 14 February 2009

Former banking bosses say 'sorry'

BBC News 10 February 2009

Alistair Darling blames bankers for not coming clean

Daily Telegraph 4 February 2009

Treasury Announces New Restrictions on Executive Compensation

New York Times 4 February 2009

'Donate big bonuses' mayor urges

BBC News 31 January 2009

Top Goldman and UBS bankers forgo bonuses

Financial Times 16 November 2008

Big bonus days over, says Brown

BBC News 9 October 2008

Gap between rich and poor 'has doubled in past 30 years'

Daily Telegraph 30 August 2008

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NOTES



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- I am interested in becoming a Debating Matters judge
- I am interested in sponsoring/supporting Debating Matters
- Other (please specify)

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Professional role
(if applicable)

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THINKING DEEPLY
ABOUT...SOCIAL
ISSUES”**

IAN GRANT, CEO, BRITANNICA

