



DAVID WEIDNER'S WRITING ON THE WALL

## Are bonuses out of control?

### Commentary: CEOs aren't the only ones under fire for compensation

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**NEW YORK (MarketWatch) -- Leave it to one of the world's leading ethical compasses, an English trade union, to guide us on the subject of what's a fair wage.**

London's Evening Standard reports that the general secretary of the Trades Union Congress, Brendan Barber, is distraught over the prospect of bigger yearend bonuses being handed out in the City, the U.K.'s equivalent of Wall Street.

"The obscene size of these City bonuses has lost touch with reality," Barber was quoted as saying.

Britons aligned with Barber are calling the growing disparity "pay apartheid" but it's really just old fashioned class warfare and politics with a dose of disinformation. The average annual paycheck in the so-called "Square Mile" is about \$165,000 -- not exactly a queen's ransom. The prospect of an additional \$100,000 to \$7 million or so in bonus money awaiting many of those workers in a year of good fortune is apparently an affront to the rank and file in other industries. The average annual income of U.K. workers was \$49,268 in 2004. On the surface, the unions seem to have a case. For someone to earn 10 or even 100 times what the average worker earns doesn't sound fair. And the unions don't seem to know the worst of it. Most multi-million-dollar U.K. bonuses aren't even paid to English bankers, they're paid to U.S. bankers working overseas on ex-patriot packages that include such perks as relocation, cars, school tuition and rent. The bonuses here in the New World make English bonuses look like pub money. Goldman Sachs **229.08, +4.70, +2.1%**) on Tuesday disclosed it has set aside \$542,000 per employee -- all 22,647 of them.

The Trades Union Congress must have let its subscription to Trader Monthly lapse. Whatever the reason, it's clear that the English unions and many of Wall Street critics don't understand what's involved in being a banker. The hours are long, the demands on personal lives great, the competition brutal and the business cyclical. Wall Street sheds jobs as often as George Keyworth speed dials BusinessWeek.

Where were you Brendan Barber in 1998 when bonuses on Wall Street tumbled 21.8% or in 2001 when bonuses plummeted 27% and the industry shed 27,000 jobs or the next year when the Street lost another 39,000 jobs? Job security on the Street is afforded to only the most senior of bankers who can sometimes negotiate contracts of two or more years. How, wage whiners say, can someone who advises CEOs or earns the mandate to underwrite an initial public offering -- or hits baseballs 30% of the time for that matter -- get paid these outrageous sums? The answer, of course, is that these people -- the so-called rainmakers in banking -- bring in much more than they take out. They are enterprises and entrepreneurs unto themselves. The M&A bankers at J.P. Morgan Chase & Co. **45.89, +2.24, +5.1%**) brought in an estimated \$571 million in fees in just the first six months of the year, according to Dealogic.

**Does Mr. Barber believe that those employees aren't entitled to split say 40% of that total between them? "If you look at what some of these people are responsible for in production, that's the market," said Gustavo Dolfino, president of executive recruiter The WhiteRock Group. "If you want a rainmaker, you have to pay the market."**

## **A lot of firms 'preach'**

If Barber wants to address inequality he might consider talking about discriminatory pay practices in the industry when it comes to women and minorities. Though the number of women and minorities is growing in the industry, women still only hold 29% of senior jobs and minorities, 22%, according to the latest survey by the Securities Industry Association.

In 2000, women represented 51% of the population, minorities 28%. Less than three years ago Morgan Stanley (53.46, +1.12, +2.1%) agreed to pay \$54 million to settle discrimination charges, and each quarter brings the lawsuit or class action accusing firms of looking the other way as hostile environments festered.

"Women and minorities will get less," Dolfino said of the compensation system in financial services. "That's where the real pressure from the unions should come. A lot of firms preach that they want women and minorities but in the end they don't hire them and they don't promote them."

## **The yearend bonus**

No matter the gender, bankers who make terrific bonuses must endure the verbal rocks of a society that values free speech. As a paying customer at a baseball game, I have the right to boo the multi-million-dollar third baseman when he strikes out or bobbles a throw. Criticism is one of the crosses the rich must endure.

This year's fantastic profits on Wall Street seem to be coming down. But the easing hasn't dampened bonus forecasts that anticipate raises of 25% for yearend payouts to M&A and equity bankers. Come early 2007, expect to see the news story that leads with the local Ferrari dealer talking about the orders he has received from cigar chomping big shots. Or maybe it will be the one with the real estate broker who just sold a bit of heaven on the Upper East Side. It's a safe bet that the buyer won't be a woman.

*David Weidner covers Wall Street for MarketWatch.*